Notes:

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of Financial Reporting Standard (FRS) 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad. It should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2006.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2006, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2007, which are as follows:

a) FRS 117 Leases

Prior to 1 January 2007, leasehold land and buildings held were classified as property, plant and equipment and were stated at their 1983 valuation less depreciation as the Directors have applied the transitional provisions of MASB approved Accounting Standards No. 16 (Revised) Property, Plant and Equipment. Accordingly, these valuations have not been updated.

The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land held for own use. Whilst previously classified as part of property, plant and equipment, leasehold land held for own use is now classified as an operating lease and the up-front payment represents prepaid lease payments with the long term portion disclosed as Leasehold land (non-current asset) and the short term portion included in Receivables (current asset) on the face of the balance sheet. There is no impact on the income statements as the prepaid lease payments continue to be amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land held for own use in accordance with the transitional provisions of FRS 117. As at 1 January 2007, the unamortised revalued amount of leasehold land is retained as the carrying amount of prepaid lease payments as allowed by transitional provisions. The reclassification of leasehold land as prepaid lease payments has also been accounted for prospectively as allowed by transitional provisions.

Leasehold buildings held for own use remain classified in property, plant and equipment as they are finance leases, where substantially all the risks & rewards incidental to their ownership is transferred to the Group. The leasehold buildings continue to be depreciated on a straight line basis, in accordance with the requirements of FRS 116 Property, Plant and Equipment.

b) FRS 124 Related Party Disclosures

This standard affects the identification of related parties, and results in additional related party disclosures presented in the financial statements.

c) FRS 119 Employee Benefits

This standard introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not intend to change the accounting policy adopted for the recognition of actuarial gains and losses, the adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

As at the date of this report, the Group has not applied the following six new/revised standards which have been issued by the Malaysian Accounting Standards Board, but are not yet effective:

a) FRS 107 Cash Flow Statements
b) FRS 112 Income Taxes
c) FRS 118 Revenue
d) FRS 134 Interim Financial Reporting
e) FRS 137 Provisions, Contingent Liabilities and Contingent Assets
f) FRS 139 Financial Instruments: Recognition and Measurement

The Group will apply FRS 107, FRS 112, FRS 118, FRS 134 and FRS 137 in the annual period commencing 1 January 2008, when they become effective. The Malaysian Accounting Standards Board has deferred the effective date of FRS 139 from 1 January 2007 to a date to be announced. It is expected that there will be no material impact on the financial statements when the Group applies these new/revised standards.

2. <u>Audit Report of Preceding Annual Financial Statements</u>

The audit report of the Group's most recent annual audited financial statements for the year ended 31 December 2006 was not qualified.

3. <u>Unusual Items</u>

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

4. <u>Changes in Estimates</u>

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

5. Taxation

Taxation comprises:

	3 months ended		6 months ended	
	30.6.2007 RM'000	**30.6.2006 RM'000**	**30.6.2007 RM'000**	**30.6.2006 RM'000**
In respect of current year				
Current tax				
- Malaysian income tax	63,183	69,362	135,458	145,054
Deferred tax	2,828	2,353	3,367	5,110
	66,011	71,715	135,825	150,164

The average effective tax rate of the Group for the six months ended 30 June 2007 approximated the statutory tax rate of 27%.

The average effective tax rate of the Group for the six months ended 30 June 2006 approximated the statutory tax rate of 28%.

6. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without amendment, from the most recent annual audited financial statements for the year ended 31 December 2006. The carrying value is based on a valuation carried out in 1983 by independent qualified valuers less depreciation.

7. Sale of Unquoted Investments and/or Properties

On 26 October 2006, the Group entered into a sale and purchase agreement for the disposal of its property at Keningau, Sabah for a consideration of RM800,000. This disposal was completed on 7 June 2007 with no material gains or losses arising.

On 15 December 2006, the Group entered into a sale and purchase agreement for the disposal of part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM24,600,000. This disposal was completed on 29 May 2007 with no material gains or losses arising.

Except for the above property disposals, there were no other sales of unquoted investments or properties during the financial period under review.

8. Quoted Securities

a) There were no purchases or sales of quoted securities during the financial period under review.

b) There were no investments in quoted securities as at the end of the financial period under review.

9. Changes in Composition of the Group

There were no changes in the composition of the Group during the financial period under review.

10. Corporate Proposals

There were no new corporate proposals announced as at 12 July 2007 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

11. Changes in Share Capital and Debt

There were no issuances, cancellations, repurchases, resale and repayment of either debt or equity securities for the period under review.

12. Borrowings

The Group's borrowings as at 12 July 2007 are as follows:

	RM'000
Current	
8-year redeemable unsecured bonds 1999/2007 With a coupon rate of 7.90% per annum, maturing on 2 November 2007	450,000
	450,000
Non-current	
4½-year medium-term notes 2004/2009 with a coupon rate of 4.95% per annum, maturing on 4 May 2009	100,000
5-year medium-term notes 2004/2009 with a coupon rate of 4.58% per annum, maturing on 2 November 2009	150,000
	250,000

All borrowings are denominated in Ringgit Malaysia.

In accordance with FRS 101, the Group's borrowings of RM450,000,000 nominal value 8-year redeemable unsecured bonds, maturing on 2 November 2007 was classified as a current liability as the Group had not completed the refinancing for these bonds as at balance sheet date. The refinancing for these bonds is expected to be completed during the financial year.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 12 July 2007 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 June 2007 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	54,447
Authorised by the Directors but not contracted for	8,999
	63,446

15. Financial Instruments

Forward Foreign Exchange Contracts

As at 12 July 2007 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report), the foreign exchange currency contracts which have been entered into by the Group to hedge its foreign purchases are as follows:

Currency	Contract amount in foreign currency '000	Date of contract	Value date of contract	Equivalent amount in RM'000
Euro	350	15/6/2007	15/8/2007	1,613
Pound Sterling	500	29/5/2007	25/9/2007	3,349

Foreign currency transactions in Group companies are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

There are no cash requirement risks as the Group uses fixed forward foreign currency contracts as its hedging instrument.

Credit Risks

The above financial instruments were executed with creditworthy financial institutions in Malaysia in line with the Group's policy.

16. Material Litigation

There was no material litigation as at 12 July 2007 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

17. Segment Reporting

No segmental analysis is prepared as the Group is primarily engaged in the manufacture and sale of cigarettes and other tobacco products in Malaysia.

18. Material Changes in the Quarterly Results as Compared with the Preceding Quarter

The overall industry volumes declined by 3.2% in the current quarter, impacted by increasing levels of illicit trade and the rapid growth of exceptionally low priced cigarettes. Our volumes declined less than overall industry as brand building activities to a certain extent mitigated the impact of the issues noted above.

Despite lower volumes, the Group's turnover in the current quarter remained stable as compared with the preceding quarter as higher margin from better sales mix offset lower sales volumes from the domestic market.

However, profit before taxation for the current quarter declined to RM244.5 million from RM269.7 million in the preceding quarter, the decline mainly due to the lower volumes and impact of price discounting activities during the earlier part of the current quarter.

19. Review of Performance

After a brief respite in the 1st quarter, in which the industry volumes appear to have stabilized, the overall industry volumes have started to decline again, impacted by higher levels of illicit trade and the rapid growth of exceptionally low priced cigarettes.

In spite of the adverse conditions, BAT Malaysia performed commendably. Total volumes declined less than overall industry as brand building activities to a certain extent mitigated the impact of the issues noted above. Further, we continue to outperform and capture share from our nearest competition with our drive brands, especially Dunhill.

The Group's market share remained strong behind the outstanding performance of Dunhill, which achieved market share gains compared to the same period last year while market share for Kent and Pall Mall continued to remain resilient.

For the financial period under review, the Group's turnover was 3.1% higher at RM1,874.2 million compared to RM1,817.5 million in the same period last year, as higher margin from higher pricing and better sales mix offset lower sales volumes from the domestic market.

Despite higher turnover, the Group's profit before taxation in the current financial period declined marginally to RM514.2 million from RM532.5 million in the same period last year, the decline mainly due to the lower volumes and impact of price discounting activities during the earlier part of Quarter 2.

20. Events Subsequent to the End of the Period

There are no material events subsequent to the end of the period under review that have not been reflected in the quarterly financial statements.

21. Seasonal or Cyclical Factors

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the financial period under review.

22. Current Financial Year's Prospects

Industry volumes, whilst not declining at the rates seen in the past two years, continue to be under pressure from the rapidly increasing levels of low priced and illegal cigarettes. The most recent illicit trade survey, covering the period January to March 2007, recorded 25.3% of cigarettes consumed being illegal. This is the highest reading on record, with one in four cigarettes being illegal and the trend continues upwards.

Furthermore, the unprecedented and significant 25% tax increase announced on 3 July 2007, prior to the usual Budget announcement in September, will no doubt further encourage consumers to down-trade to illegal cigarettes. This trend will thereby potentially undermine the efforts of the Government to discourage smoking and further exacerbate the rapid growth trend of illicit trade. Legal industry volumes will be impacted resulting in a lower demand for local leaf and this is at a time when the local tobacco leaf growing sector is undergoing a major restructuring in preparation for the full effects of the ASEAN Free Trade Agreement.

The industry is now facing a demanding period. Given the taxing times ahead, and barring unforeseen circumstances, we expect that achieving satisfactory financial results for the year will be challenging. However, the Group will endeavour to mitigate the impact of the recent developments on its business and will continue to defend its leadership position.

23. Earnings Per Share

	3 months ended		6 months ended	
	30.6.2007	**30.6.2006**	**30.6.2007**	**30.6.2006**
Basic earnings per share				
Profit for the financial year (RM'000)	178,476	182,595	375,342	382,333
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	62.5	63.9	131.5	133.9

The Group does not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

24. Dividends

The Board of Directors has declared an interim dividend of 150.00 sen gross per share, less tax of 27% amounting to RM312,655,350 (for the financial year ended 31 December 2006 – 150.00 sen gross per share, less tax of 28% amounting to RM308,372,400) in respect of the financial year ending 31 December 2007, payable on 30 August 2007, to all shareholders whose names appear on the Register of Members and Records of Depositors on 6 August 2007.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 6 August 2007 to 9 August 2007 (both dates inclusive) for the purpose of determining members' entitlement to the dividend.

A Depositor shall qualify for entitlement only in respect of:

a) shares deposited into the Depositor's securities account before 12.30 p.m. on 2 August 2007 (in respect of shares which are exempted from mandatory deposit);

b) shares transferred to the Depositor's securities account before 4.00 p.m. on 6 August 2007, in respect of ordinary transfers;

c) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

NG PEI LING
Secretary
19 July 2007