

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the 6 months ended 30 June 2008

	Note	3 months ended		6 months ended	
		30.6.2008	30.6.2007	30.6.2008	30.6.2007
		RM'000	RM'000	RM'000	RM'000
Revenue		1,013,647	937,036	2,035,057	1,874,222
Cost of sales		(606,168)	(542,841)	(1,217,177)	(1,087,272)
Gross profit		407,479	394,195	817,880	786,950
Other operating income		1,839	3,451	5,120	6,489
Operating expenses		(137,721)	(141,341)	(259,284)	(255,733)
Profit from operations		271,597	256,305	563,716	537,706
Finance cost		(6,994)	(11,818)	(13,971)	(23,539)
Profit before tax		264,603	244,487	549,745	514,167
Tax expense	5	(69,415)	(66,011)	(143,153)	(138,825)
Profit for the financial period		195,188	178,476	406,592	375,342
Earnings per share - basic (sen)	23	68.4	62.5	142.4	131.5
Earnings per share - diluted (sen)	23	68.4	62.5	142.4	131.5
Net dividends per share (sen)					
- Interim		113.0	109.5	113.0	109.5

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2007.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
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CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	As at 30.6.2008 RM'000	As at 31.12.2007 RM'000
Non-current assets			
Property, plant and equipment	6	422,656	439,959
Leasehold land	1	20,624	20,826
Goodwill		411,618	411,618
Computer software		18,505	21,091
Deferred tax assets		4,978	4,978
		878,381	898,472
Current assets			
Assets held for sale		20,638	20,638
Inventories		260,915	243,988
Receivables		218,063	186,490
Tax recoverable		26,754	26,754
Deposits, cash and bank balances		262,484	70,666
		788,854	548,536
Current liabilities			
Borrowings (interest bearing)	12	100,000	100,000
Payables		294,652	231,036
Current tax liabilities		116,514	56,493
		511,166	387,529
Net current assets		277,688	161,007
		1,156,069	1,059,479
Capital and reserves			
Share capital	11	142,765	142,765
Retained earnings		398,507	203,147
Shareholders' funds		541,272	345,912
Non-current liabilities			
Borrowings (interest bearing)	12	550,000	650,000
Post employment benefit obligations		5,523	4,982
Deferred tax liabilities		59,274	58,585
		1,156,069	1,059,479
Net Assets per share (RM)		1.90	1.21

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2007.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Issued and fully paid ordinary shares of 50 sen each		Distributable	Total
	Number of shares	Nominal value	Retained earnings	
	'000	RM'000	RM'000	
At 1 January 2008	285,530	142,765	203,147	345,912
Profit for the financial period	-	-	406,592	406,592
Deferred tax on revalued land and buildings	-	-	60	60
Dividends for financial year ended 31 December 2007 - Final	-	-	(211,292)	(211,292)
At 30 June 2008	<u>285,530</u>	<u>142,765</u>	<u>398,507</u>	<u>541,272</u>
At 1 January 2007	285,530	142,765	409,058	551,823
Profit for the financial period	-	-	375,342	375,342
Deferred tax on revalued land and buildings	-	-	60	60
Dividends for financial year ended 31 December 2006 - Special final - Final	-	-	(62,531) (354,343)	(62,531) (354,343)
At 30 June 2007	<u>285,530</u>	<u>142,765</u>	<u>367,586</u>	<u>510,351</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2007.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	6 months ended 30.6.2008	6 months ended 30.6.2007
Note	RM'000	RM'000
Operating activities		
Cash receipts from customers	1,953,898	1,836,705
Cash paid to suppliers and employees	(1,339,296)	(1,306,110)
Cash from operations	614,602	530,595
Income taxes paid	(82,414)	(108,064)
Net cash flow from operating activities	532,188	422,531
Investing activities		
Property, plant and equipment		
- additions	(20,320)	(19,398)
- disposals	3,339	37,485
Additions of computer software	(1,009)	(132)
Interest income received	2,899	5,834
Net cash flow (used in)/from investing activities	(15,091)	23,789
Financing activities		
Dividends paid to shareholders	(211,292)	(416,874)
Repayment of commercial papers	(100,000)	-
Interest expense paid	(13,987)	(23,636)
Net cash flow used in financing activities	(325,279)	(440,510)
Increase in cash and cash equivalents	191,818	5,810
Cash and cash equivalents as at 1 January	70,666	187,289
Cash and cash equivalents as at 30 June	262,484	193,099

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2007.

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 2007.

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 2007, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2008, which are as follows:

- 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
- g) Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- h) IC Interpretation 8 Scope of FRS2

The adoption of these new/revised standards and interpretation does not result in significant changes in accounting policies of the Group.

As at the date of this report, the Group has not applied the new standard FRS 139 Financial Instruments: Recognition and Measurement which has been issued by the Malaysian Accounting Standards Board, but is not yet effective as the Malaysian Accounting Standards Board has yet to determine the effective date. It is expected that there will be no material impact on the financial statements when the Group applies this new standard.

2. **Audit Report of Preceding Annual Financial Statements**

The audit report of the Group's most recent annual audited financial statements for the year ended 31 December 2007 was not qualified.

3. **Unusual Items**

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

4. **Changes in Estimates**

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	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	69,228	63,183	142,404	135,458
Deferred tax	187	2,828	749	3,367
	<u>69,415</u>	<u>66,011</u>	<u>143,153</u>	<u>135,825</u>

The average effective tax rate of the Group for the six months ended 30 June 2008 approximated the statutory tax rate of 26%.

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

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 2007. 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 8 October 2007, the Group entered into a sale and purchase agreement for the disposal of the final part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM21,000,000. This disposal is expected to be completed in the next financial year with no material gains or losses arising. The asset is currently classified as an Asset Held For Sale.

Except for the above property disposal, 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 10 July 2008 (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 30 June 2008 are as follows:

	RM'000
Current	
4½-year medium-term notes 2004/2009 with a coupon rate of 4.95% per annum, maturing on 2 May 2009	100,000
	<u>100,000</u>
Non-current	
5-year medium-term notes 2004/2009 with a coupon rate of 4.58% per annum, maturing on 2 November 2009	150,000
5-year medium-term notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012	400,000
	<u>550,000</u>

All borrowings are denominated in Ringgit Malaysia.

13. Contingent Liabilities and Contingent Assets

There were no contingent liabilities or contingent assets as at 10 July 2008 (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 2008 are as follows:

	RM'000
Property, plant and equipment:	
Authorised by the Directors and contracted for	9,834
Authorised by the Directors but not contracted for	4,449
	14,283

15. Financial Instruments

Forward Foreign Currency Contracts

As at 10 July 2008 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report), the foreign 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
Pound Sterling	2,427	14/9/2007 – 19/6/2008	27/8/2008 – 26/11/2008	15,737
US Dollar	526	9/4/2008	23/7/2008 - 14/8/2008	1,693

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 10 July 2008 (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 as measured by the Confederation of Malaysian Tobacco Manufacturers members' sales was relatively flat as compared to the previous quarter due to trade speculation, which offset the trend of reducing volumes resulting from the increasing levels of illicit trade and exceptionally low priced cigarettes. BAT Malaysia's volumes registered a decline in the current quarter as compared to the last quarter.

Consequently, the Group's Turnover in the current period was marginally lower by 0.8% versus the previous period. The full impact of the lower volumes was reduced by better sales mix in the current quarter.

However, profit before taxation for the current quarter was lower at RM264.6 million compared to the preceding quarter of RM285.1 million, the decline was mainly due to lower domestic volumes and the timing of other expenses.

19. Review of Performance

The overall industry volumes as measured by the Confederation of Malaysian Tobacco Manufacturers members' sales, declined 3.7% compared to the first half of 2007 due again to the increasing levels of illicit trade and continued growth of exceptionally low priced cigarettes.

BAT Malaysia performed commendably for the period under review. The Group grew its market share by 0.3 percentage points (pp) for the first half of 2008, versus the first half of 2007, driven by the exceptional performance of its Global Drive Brands, namely Dunhill and Pall Mall. Dunhill continued its exceptional performance by growing share by 1.1pp in this difficult environment, thereby further reinforcing its strong leadership position within the Premium segment whilst Pall Mall, similarly, continued its growth trend to register a growth of 0.6pp.

For the financial period under review, the Group's turnover was 8.6% higher at RM2,035.1 million compared to RM1,874.2 million in 2007, as higher pricing and better sales mix offset lower sales volumes from the domestic market.

The Group's profit before taxation in the current financial period improved to RM549.7 million from RM514.2 million in the same period last year, driven by higher net pricing, better sales mix, the absence of competitive price discounting activities, continued productivity savings and lower financing costs.

20. Events Subsequent to the End of the Period

There are no material events subsequent to the end of the financial 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

The large tax-led price increases in recent years has fueled the growth of illicit trade and exceptionally low priced cigarettes. The survey on Contraband and Unauthorized Incidence in Malaysia already shows that illicit trade levels have risen significantly over the past four years from 14% in 2004 to 23.8% in 2007. Put simply, one in every four cigarettes sold in Malaysia is illegal. As expected, based on the latest preliminary survey results, the overall illicit trade incidence has again increased from 23.8% to 24.9% for the period covering February to April 2008. As such, if faced with another large tax increase, this may negatively affect the total legal market.

In June 2008, the Ministry of Health announced its plan to implement enhanced regulations in alignment with the Framework Convention on Tobacco Control which include amongst others, graphic health warnings, ban on premiums and product descriptors. The Group supports all reasonable regulatory initiatives and this will have to be complemented by strong enforcement to ensure effective compliance.

It is anticipated that industry volumes will continue to be pressured by high levels of illicit trade and growth of exceptionally low priced cigarettes especially when consumers' disposable income has been further impacted by the rising costs of living, driven primarily by the recent significant petrol price increase and escalating global food and commodities prices.

Amidst the above challenges, the Group will continue to focus on growing the business sustainably through our Growth, Productivity, Responsibility and Winning Organisation strategic initiatives. Barring unforeseen circumstances and given the uncertain and trying times ahead, we expect our financial results for the year to be satisfactory at best.

23. Earnings Per Share

	3 months ended		6 months ended	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007
Basic earnings per share				
Profit for the financial period (RM'000)	195,188	178,476	406,592	375,342
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	68.4	62.5	142.4	131.5

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 a first interim dividend of 113.00 sen per share, tax exempt under the single tier tax system amounting to RM322,648,900 (for the financial year ended 31 December 2007 – 150.00 sen gross per share, less tax of 27% amounting to RM312,655,350) in respect of the financial year ending 31 December 2008, payable on 20 August 2008, to all shareholders whose names appear on the Register of Members and Record of Depositors on 4 August 2008.

NOTICE IS HEREBY GIVEN that the Register of Members will be closed from 4 August 2008 to 7 August 2008 (both dates inclusive) for the purpose of determining members' entitlement to the dividend.

British American Tobacco (Malaysia) Berhad

A Depositor shall qualify for entitlement only in respect of:

- (a) securities deposited into the Depositor's Securities Account before 12.30 p.m. on 31 July 2008 (in respect of shares which are exempted from mandatory deposit);
- (b) securities transferred to the Depositor's Securities Account before 4.00 p.m. on 4 August 2008, in respect of ordinary transfers; and
- (c) securities 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
17 July 2008