

# **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**

(Company No. 4372-M)  
(Incorporated in Malaysia)

Summary of Minutes of the Fifty-Fifth (55<sup>th</sup>) Annual General Meeting of British American Tobacco (Malaysia) Berhad held at Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 25 April 2016 at 10.00 a.m.

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## **PRESENT**

Tan Sri Mohamad Salim bin Fateh Din	:	Chairman / Independent Non-Executive Director
Mr. Stefano Clini	:	Managing Director
Datuk Zainun Aishah binti Ahmad	:	Independent Non-Executive Director
Mr. James Richard Suttie	:	Non-Independent Non-Executive Director
Dato' Chan Choon Ngai	:	Non-Independent Non-Executive Director
Mr. Pablo Daniel Sconfianza	:	Finance Director
Datuk Christine Lee Oi Kuan	:	Legal & External Affairs Director

## **ABSENT WITH APOLOGIES**

Datuk Oh Chong Peng	:	Independent Non-Executive Director
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## **IN ATTENDANCE**

Mr. David Chiam Joy Yeow	:	Company Secretary
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## **BY INVITATION**

Mr. Marcelo Alvarenga Guimaraes	:	Marketing Director
Ms. Samanmalee Priyanvada	:	Human Resources Director
Mr. Gavin Ong Yew Dee	:	Operations Director

Ms. Loh Lay Choon	}	Messrs. PricewaterhouseCoopers (External
Mr. Richard Bedlow	}	Auditors)

Mr. Adrian Lee	}	Messrs. KPMG (External Auditors)
Ms. Soo Tho Pei Yin	}	

Mr. Kenny Poon	}	Messrs. Jeff Leong, Poon & Wong (External
Ms. Lee Seen Yin	}	Counsel)
Ms. Tiffany Teh	}	

## **1. CHAIRMAN OF THE MEETING**

Tan Sri Mohamad Salim bin Fateh Din chaired the 55<sup>th</sup> Annual General Meeting (“AGM”) of the Company.

## **2. WELCOME ADDRESS AND CHAIRMAN’S OPENING SPEECH**

On behalf of the Board of Directors (“Board”) and the Company, the Chairman thanked the members for attending the AGM. The Chairman also expressed gratitude to the management team and all employees for their commitment and dedication and the Company’s business partners for their confidence and continuous support.

Members were briefed as follows:

- (a) The Company had faced the challenge of an unprecedented 40% hike in cigarette excise in November 2015 which led to a steep rise in illegal cigarette trade incidence. The Illicit Cigarettes Study (ICS) 2015 commissioned by the Confederation of Malaysian Tobacco Manufacturers (CMTM) revealed that the illegal cigarette trade incidence in Malaysia reached a high of 45.6% as of December 2015.
- (b) The Group recorded a market share growth of 0.9ppt in 2015 to achieve a full year market share of 62.1%. The growth was mainly driven by Peter Stuyvesant which continued its trajectory upwards with a gain of 1.3ppt. The Company's leading brand, Dunhill maintained its market leadership with a market share of 46.9%, witnessing a marginal decline of 0.1ppt as compared to year 2014. Pall Mall remained stable, holding a market share of 4.5%.
- (c) While the Group performed commendably in 2015 despite the tough operating environment, moving forward, the legal industry would continue to suffer as a result of the impact of 3 tax increases over a period of 12 months from 2014. The industry would be now at its tipping point given the last November 2015 excise increase. In an environment where the illegal cigarette market was already thriving at almost half of the total market, it would not be difficult to imagine that any further increase in tax, would no longer carry the combined benefits of generating higher Government tax revenue and reducing consumption.
- (d) In view of the seriousness of the illegal cigarette trade, the shareholders were informed that the Company has appealed to the Government to consider a moratorium on cigarette excise tax to allow the market to stabilise and to support enforcement efforts to reduce the illegal trade.
- (e) The Company thanked the law enforcement agencies, especially the Royal Malaysian Customs (RMC) for their zero-tolerance approach toward combating illegal cigarette trade. The Company hoped that RMC would continue to enhance their enforcements efforts and press for much steeper penalties to address the illegal cigarettes growth.
- (f) Given that the business environment continued to remain challenging, the Group had earlier in the year announced that it would be making a transformative change to its business model by sharpening its commercial capabilities whilst optimising its supply chain and transactional activities. The following salient points in relation to the Company's restructure and winding down of factory operations were highlighted:
  - On 17 March 2016, the Company made an announcement that it would restructure its business operations by sourcing tobacco products for its domestic market from other BAT Group factories regionally and would cease its manufacturing operations located at Virginia Park, Jalan University, 46200 Petaling Jaya, Selangor.
  - The winding down of factory operations would be carried out in stages and targeted to only complete by the 2<sup>nd</sup> half of 2017.
  - The high excise environment has ultimately led to the share rise in illegal cigarettes and significantly lower legal sales volumes resulting in rising cigarette production costs.
  - The winding down of the factory operations would affect approximately 230 employees who would be provided with a benefit package as well as the option to undergo a career-transition programme.

- The restructuring exercise would be expected to have a positive financial impact on the Company.
  - The land upon which the factory operations is located would be disposed of by the Company by way of a public tender exercise. The equipment and machinery currently used for factory operations would be sold to related parties within British American Tobacco group of entities.
  - An independent real estate agent has been appointed by the Company to act for and on behalf of the Company to deal with all matters relating to the proposed disposal of the land. The public tender exercise has commenced and was scheduled to complete on or about May 2016.
  - Shareholders' approval on the disposal would be sought in accordance with the Main Market Listing Requirement of Bursa Malaysia Securities Berhad. The Company would be making further announcements and issue a circular to shareholders in relation to the proposed disposal of land in due course.
- (g) British American Tobacco Malaysia Foundation had awarded RM479,000 in scholarships to 26 aspiring students and donated 248 digital assets which were refurbished to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.
- (h) The Company had received the followings awards in 2015 as listed below:-
- (i) Best Employer Brand Awards year 2015
  - (ii) Asia Recruitment Awards 2015
  - (iii) HR Excellence Awards 2015
  - (iv) Building Trust Awards by PwC 2015
  - (v) MSWG-Asean Corporate Transparency Index, Findings and Recognition
- (i) The Company priorities and plans for 2016 would remain the same, to deliver on the Group's solid track record of growth by investing where it matters the most.

### **3. QUORUM**

The requisite quorum being present pursuant to Article 71 of the Company's Articles of Association, the Chairman declared the Meeting duly convened at 10.00 a.m.

### **4. NOTICE OF MEETING**

With the consent of all members present, the Notice of Meeting having been circulated on 1 April 2016 was taken as read.

### **5. VOTING PROCEDURES**

Before the Meeting proceeded to the first item on the Agenda, members, proxies and the corporate representative present were briefed of their rights to speak and vote on the resolutions set out in the Notice of the 55<sup>th</sup> AGM dated 1 April 2016.

The Meeting was informed that there were 5 proposed Ordinary Resolutions which require a vote by simple majority of members to vote, except Ordinary Resolution 3 which require a

majority of not less than three-quarters of the members present to vote. Each resolution was required to be put for discussion and voting by one proposer and one seconder. Voting could be done by way of show of hands, which means each member or his/her proxy or proxies shall represent one vote.

If a poll was demanded on any particular motion, voting would then be done by ballot, which means, one share would represent one vote and for purposes of counting, the aggregate number of shares from the Form of Proxy lodged in time for the Meeting would be taken into account. In such event, Tricor Investor & Issuing House Services Sdn. Bhd., the Share Registrar would act as scrutineers to handle and verify the poll results.

## **6. 2015 FINANCIAL PERFORMANCE AND HIGHLIGHTS**

Members were briefed on the Company's 2015 performance and highlights as follows:

- (a) The Company with over 100 years of history in Malaysia continued to be rank amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation and employed approximately 752 employees across the country. In terms of key deliverables, the Group closed the year at 62.1% share of market.
- (b) It was a tough business environment in 2015 given the unprecedented excise increase of 40% in November 2015. Illegal cigarette trade was the main challenge faced by the legal tobacco industry. In line with the adverse challenges faced, the Group's financial performance was affected by a domestic volume contraction of 13.5% in the face of down trading of legal volumes to illegal volumes in 2015 versus 2014, which resulted in a 4.5% reduction of revenue (RM4,582 million from RM4,796 million a year ago) and 2.2% reduction of gross profit for 2015.
- (c) Despite the tough business environment, the Group managed to record a 0.9% increase in net profits, a 1.0% increase in profits before tax and 0.5% increase in profit from operations for the financial year 2015 (RM1,240 million in 2015 from RM1,234 million previously). This was largely attributed to the 8.7% decrease in operating expenses for the year driven by the Group's continuous efforts in driving further efficiencies in its expenditures and overhead costs. The Company's operating margin increased from 25.7% to 27.1% in year 2015, representing a 1.4ppt increase as compared to 2014.
- (d) The cash from operations increased 5.4% to RM1,378 million from RM1,307 million in year 2014 which was mainly contributed by improvement in working capital of RM67 million and the reduction in inventories and trade receivables.
- (e) The Company had paid dividends amounting to RM3.12 per share during the financial year, which represented a 97.9% earnings per share payout. This translated into a dividend growth of 1.0% as compared to previous year.
- (f) The total shareholders' return remained solid at a 7.9% return per annum on a compound basis when measured since the 1999 merger.

## 7. QUESTIONS FROM THE MINORITY SHAREHOLDER WATCHDOG GROUP AND MEMBERS OF THE COMPANY

(1) Members were informed that the Minority Shareholder Watchdog Group (“MSWG”) had submitted a series of questions to the Company prior to the AGM and the questions and responses from the management of the Company were as follows:

*(a) As noted in the announcement dated 17 March 2016, the Company will restructure its business operations in Malaysia and cease its factory operations located at Petaling Jaya. In this regards, please quantify the financial implications and potential cost savings to the Company.*

- The restructuring is in line with the Company’s efforts towards realising a new and more sustainable business model, amidst an increasingly challenging business environment. This includes high excise taxes, which have ultimately led to the sharp rise in illegal cigarette incidence and significantly lower legal sales volume, resulting in rising production costs.
- The Company has identified three BAT related regional centres of manufacturing for all its brands namely in Singapore, Indonesia and South Korea. These regional centres are producing at a lower cost compared to Malaysia due to their production volumes which are much higher than our local factory. In addition, variable cost will not be materially impacted by the fact that production will come from outside Malaysia as the Group operates with global suppliers under similar commercial conditions regardless of the production facility.
- The restructuring exercise is expected to have a positive financial impact on the Company. The financial implication of the land sale is subject to shareholders’ approval at the end of the land sale process. Further, the sale of equipment and machinery currently used for factory operations is still work in progress. As such, we are not currently able to provide the said information.

*(b) Please enlighten shareholders on the negative implications on the Group’s performance amid a significant hike in tobacco duties of more than 30%. Other than raising prices for all products of the Group, are there any other effective measures to mitigate the negative implications of the hike of excise duties?*

- The significant hike in excise over the years including the huge hike in November 2015 has impacted our legal volumes, which was a decline of 24.6% in the fourth quarter of 2015 versus the same period of last year whilst illegal cigarette incidence has gone up and as at December 2015 was 45.6%.
- Since illegal cigarette trade has a huge impact on the legal industry, on an industry front, the Group is working with relevant authorities to help address illegal cigarette trade.
- Our strategies and priorities on the business will remain the same, which is to invest where it matters to strengthen our brand portfolio to increase our legal market share and to drive further cost efficiencies for delivering growth not just today, but to invest in our future as well. Our drive for cost efficiencies is evidenced by the 9% decline in the Group’s distribution, marketing and administrative expenses in 2015 vs last year.

- The recent announcement on 17 March 2016 on the Group's decision to restructure its business operations in Malaysia by sourcing tobacco products for the domestic market from other British American Tobacco Group factories regionally is yet another action taken by the Group towards realizing a new and more sustainable business model. The sourcing of tobacco products for the domestic market from other regional centres will result in further cost savings to the Group, ensuring it remains a competitive consumer-focused market leader, and at the same time, enabling the Group to sharpen its commercial capabilities.
- (c) ***What measures and strategies have been taken by the management to counter the emergence of alternative product offerings such as e-cigarettes?***
- British American Tobacco Malaysia currently does not manufacture or sell e-cigarettes. However, BAT Group is committed to harm reduction and as such, in 2013, BAT was the first tobacco company to launch an e-cigarette, Vype in the UK and more recently in 2015 in Italy, France, Poland, Germany and Colombia.
  - The issue of electronic cigarettes has been one of the great debates in public health in recent years with many health professionals and experts issuing supportive research and views. We similarly believe that these products have the potential to positively impact public health. We therefore support a regulatory framework that gives consumers the assurances they deserve around product quality, safety and availability.
  - Unfortunately, we are unable to comment or speculate on any potential future plans but we will always assess markets for consumer and commercial potential.
- (d) ***It was reported in the news media that the Government intends to introduce generic packaging for tobacco products. Would there be any impact to the Group's financial performance, branding and intellectual property trademark.***
- We are strongly opposed to plain packaging. Such a regulatory move will in effect benefit the illegal segment as it makes life easier for counterfeiters and smugglers to produce and sell the products. Legal volumes may in turn, suffer as a consequence of increased levels of illegal cigarettes.
  - Australia is the only country in the world that has implemented plain packaging. According to data provided by the Australian Government, Infoview, KPMG and Roy Morgan Research, youth smoking rates are at a 7 year high following the introduction of plain packaging and percentage of smokers consuming more than 11 cigarettes a day have increased, proving that plain packaging did not reduce youth smoking rates nor made Health Warnings more effective. Illegal cigarettes have also grown by 25 percent in Australia since the introduction of plain packaging and are now at its highest level in 7 years.
  - Other inadvertent impact of plain packaging is that it clearly infringes the intellectual property rights of cigarette manufacturers by depriving the use of key trademarks. This impacts product differentiation and competitiveness. Plain packaging may also create a dangerous precedent for other critical industry sectors.

(e) *Formalise a policy on succession planning, evaluating the contribution and performance of the directors as recommended under MCCG 2012 and disclose it in the Annual Report. In line with good corporate governance practices, we also encourage the Company to adopt a tenure limit of 9 years for its Board and Audit Committee.*

- The Board of Directors conducts its evaluation process annually and in terms of the tenure for independent directors, we believe that valuable contribution can be obtained from Directors who have, over a period of time, developed valuable insight of the Company and its business. Their continued contribution provides benefit to the Board and the Company as a whole.
- Further, the Board is confident and firmly believes that independent directors who have been on the Board for a long tenure are all individuals of high caliber and integrity and can be tasked to discharge their duties and responsibilities independently and effectively notwithstanding their tenure on the Board.
- On succession planning, the Board of Directors is conscious and are on the constant look out for capable and available independent directors to serve on the Board when a vacancy arises and this is a discussion that is conducted on an on-going basis.

(2) Following the above, other key questions raised by members and responded to by the Board were as follows:

- whether the reduction of revenue, fall in share price, and winding down of factory operations by 2<sup>nd</sup> half of 2017 were due mainly to the high incidence of illegal cigarette trade, to which the response was that the unprecedented excise increase recently had led to a sharp rise in illegal cigarettes and lower legal sales volume. Therefore, management had focused its efforts to deal with the increasingly challenging business environment by restructuring the business operations which included the winding down of its factory operations. The Royal Malaysian Customs and relevant authorities had also put in efforts to tackle the high incidence of illegal cigarette trade through enforcement but the illegal cigarette incidences continued to be high.
- the impact to the business on the high illegal incidence trade of 36.9% to which the response was that the Company would be working closely with the relevant authorities to address the illegal cigarette trade issue in the country.
- The details of the proposed disposal of land and the severance of 230 employees upon the winding down of the factory operations, to which the Board responded that an independent real estate agent has been appointed by the Company to act for and on behalf of the Company to deal with all matters relating to the proposed disposal of land. The land would be disposed by way of public tender and the tender process would be fair and transparent. Shareholders' approval would be sought in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The 230 employees impacted would be provided with a benefits package as well as the option to undergo a career-transition programme.
- whether winding down of factory operations would have an impact over the Company's profit margin, to which the response was that the Company would be sourcing tobacco products for domestic market from other British American Tobacco Group factories regionally and it was expected to have a positive financial impact on the Group overall. There was no change to the quality of service and its products. The

Board was of the view that the restructuring would be in the best interest of the Company and its shareholders.

- how the sourcing of tobacco products would be conducted in future and enquired about the utilisation of proceeds of the disposal of land, to which the response was that the Company would be sourcing tobacco products for the domestic market from other British American Tobacco Group’s factories in the region, potentially from its Indonesia, Singapore and South Korea factories based on the best and most cost effective source in accordance to the needs of the Company. The Management was still in the midst of reviewing and considering the use of the cash proceeds and shareholders would be informed in due course.
- whether Employees Provident Fund (“EPF”) had disposed its shareholdings in the Company, to which the response was that to-date there was no change to EPF’s shareholdings in the Company but the Company would be unable to comment on EPF’s plans.
- whether all existing properties of the Group has been revalued, to which the Board responded that the Company had performed an evaluation of the properties 4 years ago and the all other properties held by the Group was not material except for the property located at Petaling Jaya, Selangor.

## 8. VOTING RESULTS

All the following resolutions tabled at the AGM of the Company were duly passed by the shareholders of the Company:

### As Ordinary Business

RESOLUTION	AGENDA
	Receipt of the Audited Financial Statements of the Company for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors.
Ordinary Resolution 1	Re-election of Mr. Stefano Clini as Director in accordance with Article 97(1) and (2) of the Company’s Articles of Association.
Ordinary Resolution 2	Re-election of Dato’ Chan Choon Ngai as Director in accordance with Article 97(1) and (2) of the Company’s Articles of Association.
Ordinary Resolution 3	Re-appointment of Datuk Oh Chong Peng as Director pursuant to Section 129 of the Companies Act, 1965.
Ordinary Resolution 4	Appointment of Messrs. KPMG as Auditors of the Company in place of the retiring Auditors, Messrs. PricewaterhouseCoopers, and fixing of the Auditors remuneration.



**As Special Business**

<b>RESOLUTION</b>	<b>AGENDA</b>
Ordinary Resolution 5	Retention of Datuk Oh Chong Peng as an Independent Non-Executive Director.
Ordinary Resolution 6	Proposed renewal of shareholders' mandate for the Recurrent Related Party Transactions of a revenue or trading nature.

**9. CLOSURE**

The Chairman informed the Meeting that no notice of other business to be transacted at the Meeting had been received.

The Meeting was closed at 11.45 a.m. with a vote of thanks to the Chairman.