

*Rothmans of Pall Mall (International) Limited*  
**1998 ANNUAL REPORT AND ACCOUNTS**



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## **DIRECTORS' REPORT**

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**T**HE DIRECTORS submit their Report and the audited accounts for the year ended 31st March 1998.

### **Activities and results**

The principal activities of the Company during the year was the manufacture of cigarettes in the United Kingdom and the marketing, sale and distribution of these products in the Middle East, Africa and the Indian Sub-Continent on behalf of its parent company, Rothmans International Tobacco (UK) Limited. In Central and Eastern Europe it undertook these activities as principal. The Company also holds investments in certain overseas subsidiaries and associated undertakings.

During the year the directors reviewed the business activities of the Company and decided that whilst the markets of Central and Eastern Europe still contain significant potential for the long term, it would be beneficial for the Company to sell its rights to conduct business in these territories. The details of the sale are set out in Note 20 on page 17 of the financial statements.

Full details of the Company's results for the year and its financial position at the end of the year are set out in the accounts and related notes on pages 5 to 17.

### **Dividends and transfers to reserves**

During the year the Company paid dividends of £50 million (1997: £5 million).

### **Research and development**

The Company recognises the importance of continuing to invest in research and development in respect of its tobacco products. The work is aimed at improving the quality of its existing products as well as the development of new products and production techniques.

### **Disabled persons**

The Company's policy is that full and fair consideration is given to the employment of disabled persons, taking account of their aptitudes and abilities. Employees becoming disabled persons are retained in employment, where applicable, and proper consideration is given to the training needs, career development and promotional potential of disabled persons in the Company's employment.

### **Employee involvement**

The Company has established lines of communication to inform employees regularly of its business objectives and achievements and has established procedures and practices to provide information about, and involve employees in, matters of direct concern to them, particularly with regard to health, safety and welfare.

## DIRECTORS' REPORT

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### Environment conservation

The Company operates a policy and performance reporting structure designed to ensure that in the conduct of its activities full and proper account is taken of the actions necessary for the conservation of the environment.

### The Year 2000 Issue and the Introduction of the Euro

The impact of the Company's activities from both of these events is being considered within the overall context of the Rothmans International B.V. Group. Further details with respect to these issues are set out within the financial statements of that company. Details of where copies of these financial statements can be obtained are given in Note 19 on page 17.

### Directors

The directors of the Company during the year ended 31st March 1998 were:

I G Maitland	(Chairman)	M A Southgate
N J I Buck	(Resigned 17th October 1997)	C D Tomkinson
A J Cain		P L Van Cauwelaert
J Kingsley		E N Wingfield (Resigned 26th September 1997)
B J Partridge		R P de C Yeo

Subsequent to the balance sheet date the following changes to the board took place. Mr A J Cain, Mr B J Partridge and Mr R P de C Yeo resigned on 30th June 1998. On the 15th July 1998, Mr I G Maitland, Mr M A Southgate and Mr P L Van Cauwelaert also resigned. Mr N H Ellison was appointed on 1st July 1998. Mr M A Oliver and Mr G R Thomas were also appointed on 15th July 1998.

### Directors' interests

The interests of the directors of the Company and their family interests in the shares of the Company, its subsidiaries, its fellow subsidiaries or its ultimate holding company as shown in the Register of Directors' shareholding kept pursuant to Section 325 of the Companies Act 1985 ('the Register'), are shown below.

As permitted by Statutory Instrument, the Register does not include any interests of Mr J Kingsley or Mr I G Maitland who are also directors of the Company's immediate holding company, Rothmans International Tobacco (UK) Limited, and their respective interests are disclosed in that company's accounts.

## DIRECTORS' REPORT

At 1st April 1997 and at 31st March 1998 none of the directors of the Company had any interests in the shares of the Company. As at 1st April 1997 and as at 31st March 1998, the interests of the directors were as follows:

In Vendôme Luxury Group Units (see note 2).

	31st March 1998	1st April 1997
	Units held	Units held
N J I Buck	-	3,698
A J Cain	-	15,849
M A Southgate	-	4,573

### Notes

- 1 By virtue of the constitutions of Vendôme Luxury Group plc and Vendôme Luxury Group S.A., each Vendôme Luxury Group unit comprises one Vendôme Luxury Group plc Ordinary share of 5 pence and one Vendôme Luxury Group S.A. share of no par value.
- 2 On the 25th March 1998 the proposal to acquire the interests of minority unitholders of Vendôme Luxury Group by New VLG S.A., a wholly owned subsidiary of Compagnie Financière Richemont A.G., became effective and Vendôme units were delisted.
- 3 Save as disclosed above, none of the directors or their immediate families had any notifiable interests in the shares or in any options to subscribe for shares in the capital of the Company, its subsidiaries, its parent companies or its fellow subsidiaries.

### **Auditors**

The auditors, Coopers & Lybrand, merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

On behalf of the Board



For and on behalf of  
**Risecretaries Limited**  
Secretary  
30 July 1998

Registered Office  
Oxford Road  
Aylesbury  
Bucks HP21 8SZ  
Registered in England and Wales (No. 934507)

## STATEMENT OF ACCOUNTING POLICIES

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THE ACCOUNTS have been prepared on historical cost accounting principles and in accordance with applicable Accounting Standards in the United Kingdom. Information relating to significant accounting policies is set out in the following paragraphs.

**(a) Basis of preparation**

Group accounts have not been prepared, the Company being a wholly owned subsidiary of Rothmans International B.V., incorporated in The Netherlands.

**(b) Investments in subsidiary and associated undertakings**

Shares in subsidiary and associated undertakings are recorded in the Company's balance sheet at cost less provision for any permanent diminution in value.

**(c) Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in arriving at the results for the year.

**(d) Dividend income**

Dividend income is recognised when dividends are received.

**(e) Turnover**

Turnover is the net amount receivable by the Company from sales to third parties excluding value added taxes, tobacco duties and all other sales taxes.

**(f) Advertising, promotion, research, development, patents and trade mark expenses**

These expenses are written off in the accounting period in which they are incurred and taken into account in arriving at the results for the year, except advertising and promotional costs relating to specific future events which are carried forward to the accounting period in which those events take place.

**(g) Provision for employees' post retirement benefits**

The cost of providing post retirement benefits is charged against profits on a systematic basis, with surpluses or deficits arising allocated over the expected remaining service lives of current employees.

## **STATEMENT OF ACCOUNTING POLICIES**

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### **(h) Taxation**

Provision is made in each accounting period for all taxation expected to be payable in respect of profits earned to the end of the period.

Deferred taxation, arising from timing differences between the recognition of certain items of income and expenditure for accounting and taxation purposes, is accounted for in respect of timing differences to the extent that it is probable that a liability or asset will crystallise. Where a debit balance arises, the asset is only carried forward to the extent that it is expected to be recoverable within the foreseeable future.

### **(i) Tangible fixed assets**

The costs of fixed assets are depreciated over the expected economic life of the assets. The depreciation rates are as follows:

#### **Leasehold Land and Buildings:**

- Long	2%
- Short	Life of lease

#### **Fixtures, Fittings and Equipment:**

- Computer Equipment	25%
- Motor Vehicles	25%
- Other	10% - 15%

### **(j) Leased assets**

Assets held under finance leases are capitalised and depreciated over their expected economic lives. The liabilities corresponding to remaining capital payments under finance leases are included within creditors. Rentals payable on assets held under operating leases are charged in arriving at operating profit.

### **(k) Stocks**

Stocks are valued at the lower of cost and net realisable value. Cost comprises material cost plus direct labour, an appropriate proportion of overheads and, where applicable, duties and taxes.

## PROFIT AND LOSS ACCOUNT

For the year ended 31st March 1998

	Notes	1998 £'000	(as restated) 1997 £'000
<b>Operating Profit/(Loss)</b>			
Continuing operations	1	2,631	3,489
Discontinued operations	1	(9,078)	(4,911)
		<u>(6,447)</u>	<u>(1,422)</u>
Income from fixed asset investments	2	2,982	2,756
Profit on sale of discontinued business	3	72,000	-
<b>Profit on ordinary activities before interest</b>		<u>68,535</u>	<u>1,334</u>
Net interest receivable and similar income	4	3,748	4,450
<b>Profit on ordinary activities before taxation</b>		<u>72,283</u>	<u>5,784</u>
Taxation on profit on ordinary activities	5	(20,762)	(1,494)
<b>Profit on ordinary activities after taxation</b>		<u>51,521</u>	<u>4,290</u>
Dividends	6	(50,000)	(5,000)
<b>Surplus/(Deficit) for the year after dividends</b>		<u>1,521</u>	<u>(710)</u>

The results for the year ended 31st March 1997 have been restated to reflect activities of the Company which were classified as discontinued during the year ended 31st March 1998. Further detail is set out in Note 1 on page 10 of the financial statements.

The Company has no recognised gains and losses in the year other than the profits above, and therefore no separate statement of total recognised gains and losses has been presented. There is no difference between the profit on ordinary activities before taxation and the retained profits for the year stated above and their historical cost equivalents.



# BALANCE SHEET

31st March 1998

	Notes	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Tangible assets	7	-	1,814
Investments	8	<u>20,700</u>	<u>29,949</u>
		<b>20,700</b>	<b>31,763</b>
<b>Current assets</b>			
Stocks	9	-	9,156
Debtors	10	134,261	101,208
Cash at bank and in hand		-	553
		<u>134,261</u>	<u>110,917</u>
Creditors: amounts falling due within one year	11	<u>(20,490)</u>	<u>(9,730)</u>
<b>Net current assets</b>		<u>113,771</u>	<u>101,187</u>
		<u><b>134,471</b></u>	<u><b>132,950</b></u>
<b>Capital and reserves</b>			
Called up share capital	12	117,500	117,500
Share premium account		461	461
Profit and loss account		<u>16,510</u>	<u>14,989</u>
	13	<u>16,971</u>	<u>15,450</u>
<b>Equity Shareholders' Funds</b>		<u><b>134,471</b></u>	<u><b>132,950</b></u>

The accounts were approved by the Board of Directors on 30 July 1998 and signed on its behalf by:



Director



Director

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31st March 1998

	1998 £'000	1997 £'000
Profit for the year	51,521	4,290
Dividends	(50,000)	(5,000)
Movements in shareholders' funds	1,521	(710)
Opening shareholders' funds	132,950	133,660
Closing shareholders' funds	134,471	132,950



## NOTES TO THE ACCOUNTS

### 2. Income from fixed asset investments

	1998 £'000	1997 £'000
From subsidiary undertakings	2,672	2,428
From associated undertakings	310	322
From other investments	-	6
	<u>2,982</u>	<u>2,756</u>

### 3. Profit on sale of discontinued business

The profit arises from the sale of the rights to the Central & Eastern Europe business for £72,000,000. Further detail is set out in Note 20 on page 17.

### 4. Net interest receivable and similar income

	1998 £'000	1997 £'000
Interest receivable and similar income:		
From group undertakings	<u>3,748</u>	<u>4,450</u>

### 5. Taxation on profit on ordinary activities

	1998 £'000	1997 £'000
United Kingdom Taxation:		
Corporation tax at 31% (1997:33%) on profits including dividends received from overseas	20,396	2,635
Prior year adjustment	(864)	-
Relief for overseas taxation	(3)	(6)
Deferred taxation	<u>1,190</u>	<u>(1,190)</u>
	20,719	1,439
Overseas current taxation	<u>43</u>	<u>55</u>
	<u>20,762</u>	<u>1,494</u>

Corporation tax of £22,320,000 is attributable to the exceptional item.

### 6. Dividends

	1998 £'000	1997 £'000
Dividends paid in the year	<u>50,000</u>	<u>5,000</u>

## NOTES TO THE ACCOUNTS

### 7. Tangible fixed assets

	Short leasehold improvements £'000	Fixtures fittings & equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
1st April 1997	545	1,276	1,069	2,890
Additions	-	364	825	1,189
Disposals	(545)	(1,640)	(1,894)	(4,079)
<b>31st March 1998</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Depreciation</b>				
1st April 1997	35	589	452	1,076
Charge for the year	10	303	348	661
Disposals	(45)	(892)	(800)	(1,737)
<b>31st March 1998</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value</b>				
1st April 1997	<u>510</u>	<u>687</u>	<u>617</u>	<u>1,814</u>
<b>31st March 1998</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## NOTES TO THE ACCOUNTS

### 8. Fixed asset investments

	Subsidiary undertakings £'000	Associated undertakings £'000	Other £'000	Total £'000
Shares at cost 1st April 1997	24,033	5,222	694	29,949
Additions	34,567	-	-	34,567
Disposals	(41,563)	(327)	(694)	(42,584)
Provisions	(632)	(600)	-	(1,232)
<b>Shares at cost 31st March 1998</b>	<b>16,405</b>	<b>4,295</b>	<b>-</b>	<b>20,700</b>

The above direct investments were all in unlisted undertakings.

The principal subsidiary and associate undertakings at 31st March 1998, which are all engaged in tobacco operations are:

Undertaking	Incorporated	Class of shares held	Attributable to the Company
Rothmans of Pall Mall (Cyprus) Limited	Cyprus	Ord Shares of C£1	100
Carreras of Cyprus (Export) Limited	Cyprus	Ord Shares of C£1	100%
Carreras France S.A.	France	Ord Shares of FF100	100%
Carreras Malta Limited	Malta	Ord Shares of M£0.25	100%
Rothmans (Middle East) Limited	Cyprus	Ord Shares of C£1	100%
Tabacongo SZARL	Congo(RDC)	Ord Shares of Z80	100%
Central Cigarette Company Limited	Malta	Ord Shares of M£1	50%
Tabarwanda SARL	Rwanda	Ord Shares of RF 1,000	48%
National Tobacco and Match Company	Yemen	Ord Shares of YAR 5	25%
United Industries Company	Yemen	Ord Shares of YAR 100	25%
Lakson Tobacco Company Limited	Pakistan	Ord Shares of RS10	20%
Zanzibar Cigarette Company Limited	Zanzibar	Ord Shares of TSH1000	77.5%

### 9. Stocks

Stocks all relate to finished goods and goods for resale.

## NOTES TO THE ACCOUNTS

### 10. Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade debtors	-	21,016
Amounts owed by immediate parent company	67,313	59,266
Amounts owed by fellow subsidiary undertakings	66,353	3,721
Amounts owed by subsidiary undertakings	595	-
Other debtors	-	14,797
Prepayments and accrued income	-	1,218
Deferred taxation	-	1,190
	<u>134,261</u>	<u>101,208</u>

### 11. Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Trade creditors	-	66
Amounts owed to fellow subsidiary undertakings	310	175
Amounts owed to subsidiary undertakings	-	42
Corporation tax	20,180	3,254
Other creditors	-	4,837
Accruals and deferred income	-	1,356
	<u>20,490</u>	<u>9,730</u>

### 12. Share capital

	Authorised, allotted, called up and fully paid 1998 & 1997 £'000
Ordinary share capital in shares of £1 each	<u>117,500</u>

## NOTES TO THE ACCOUNTS

### 13. Share premium account and reserves

	Share premium account £'000	Profit & loss account £'000	Total £'000
At 1st April 1997	461	14,989	15,450
Profit for the year	-	1,521	1,521
At 31st March 1998	<u>461</u>	<u>16,510</u>	<u>16,971</u>

### 14. Financial commitments and contingent liabilities

The Company had, at 31st March 1998 and 31st March 1997, provided guarantees in the ordinary course of business in respect of which no material losses are expected to arise.

Commitments for the next twelve months under operating leases are set out below:

	Land & buildings	
	1998	1997
	£'000	£'000
Commitments under leases expiring:		
Within one year	310	264
Between two and five years	874	592
	<u>1,184</u>	<u>856</u>

### 15. Employee information

The average number of people, excluding executive directors, employed by the Company during the year to 31st March 1998 was 1,798 (1997: 1,838). They were engaged in the following activities:

	1998	1997
Manufacturing	1,370	1,442
Sales, distribution and administration	428	396
	<u>1,798</u>	<u>1,838</u>



## NOTES TO THE ACCOUNTS

The aggregate compensation of these employees was as follows:

	1998	1997
	£'000	£'000
Wages and salaries	3,320	3,151
Social security costs	157	163
Other pension costs	494	467
	<u>3,971</u>	<u>3,781</u>

The remuneration of 1,741 of the employees for the year to 31st March 1998 was borne by the immediate parent undertaking (1997: 1,784).

### 16. Directors' emoluments

Directors' emoluments for the year were as follows:

	1998	1997
	£'000	£'000
Aggregate emoluments	1,419,685	1,613,833
Amounts received under long term incentive schemes	1,096,837	606,279

Retirements benefits are accruing to 8 directors under a defined benefit scheme.

The highest paid director received emoluments and benefits under long term incentive schemes of £621,018 during the year (1997: £482,273) and an accrued pension of £166,520 per annum as at 31st March 1998 (1997: £151,385).

### 17. Employees' pensions

The Company meets its obligations to employees through contributions to the Rothmans International UK Pension Fund, which is a separate trustee administered scheme of the defined benefit variety. The last actuarial valuation of the fund took place on 31st March 1996 and disclosed that the actuarial value of assets was in excess of the estimated long term accrued liabilities. Particulars of the actuarial valuation are contained in the financial statements of the immediate parent undertaking, Rothmans International Tobacco (UK) Limited.

### 18. Related party transactions

No transactions are disclosed due to the Company being a 100% subsidiary of Rothmans International B.V..

## NOTES TO THE ACCOUNTS

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### 19. Parent companies and controlling parties

The directors regard Compagnie Financière Richemont AG, a listed company incorporated in Switzerland, to be the ultimate parent company; shares representing 50% of the voting rights of that company are held by Compagnie Financière Rupert which, for the purposes of Financial Reporting Standard 8, is regarded by the directors as the ultimate controlling party. The directors consider that the Company is controlled, for operational purposes, for which group accounts are drawn up, by Rothmans International B.V.. At 31st March 1998 the Company's immediate parent company was Rothmans International Tobacco (UK) Limited, a company registered in England and Wales.

Copies of the group accounts of Rothmans International B.V. are available from the Secretary, De Boelelaan 32, 1083 Amsterdam, The Netherlands. Copies of the group accounts of Compagnie Financière Richemont AG are also available from The Secretary, Rigistrasse 2, CH-6300 Zug, Switzerland.

### 20. Disposal of the Central and Eastern Europe Business

On 26th March 1998, the Company sold at their fair value of £42.6 million, its subsidiary and associated undertakings and other fixed asset investments in Central and Eastern Europe to Rothmans International Holdings B.V.. As the fair values equated to the net book amount as at that date, neither a profit nor a loss was achieved.

Movements in the Company's Fixed Asset Investments are set out in Note 8 on page 13 of the financial statements.

On 27th March 1998, the Company sold, at its fair value of £72 million, its Central and Eastern Europe business to Rothmans International Holdings B.V.. As its fair value was not reflected in the books of the Company, a profit of £72 million was achieved. This is disclosed in the accounts as a profit on the sale of discontinued business. In addition, certain assets and liabilities relating to the business were also sold at the same time at their fair value, which equated to their net book amount.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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THE FOLLOWING statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on the next page, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 5 to 17 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

## AUDITORS' REPORT

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To the members of Rothmans of Pall Mall (International) Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

As described on page 18 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31st March 1998 and of its results and total recognised gains and losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London  
30 July, 1998