MANUFACTURING - TOBACCO
1993

Tobacco exports lost R8,9m

Political Staff

CAPE TOWN — The Tobacco Board exported tobacco at an R8,9m loss during the 1991/'92 financial year, the auditor-general's office reported yesterday

The auditor-general's report was tabled in Parliament yesterday

The auditor-general said the net losses on exports were written off against the Special Fund

The report also said ex-gratia payments totalling R17,8m were made to tobacco co-operatives with ministerial approval in respect of special levies collected on tobacco sold domestically iatives in Natal Midlands in danger ● Schoolgirl tell "pack of lies"

brief

Sowetan 24/3/93.

Labourer crushed

A FARM labourer was crushed to death in a silage cutter near Darling on the Cape West Coast on Monday when a colleague apparently accidentally switched on the machine while the labourer was cleaning it

The name of the man has not been released

Sash convenes

THE 1993 national conference of the Black Sash organisation will be held in Maritzburg from April 1 to 4.

Papers will be delivered on education for democracy; the South African Budget and economics; contested human rights (affirmative action and abortion), the constitution and legislation, and fieldworker and advice office reports

Sowetan 24/3/93

Funeral for victim

ONE of the four men shot dead by police near Mandela Park squatter camp in Katlehong last week will be buried at the Tokoza Cemetery tomorrow. He is Mr Herford Simanga (25) of 519 Ramokonopi East, Katlehong.

Peace hopes fade

Sowetan 24/3/93

■ GRENADE ATTACK IFP official is seriously wounded in blast at shop:

THE HANDGRENADE ATTACK on an Inkatha official in the Natal Midlands was the work of agents provocateurs intent on sabotaging embryonic peace initiatives, the Inkatha Freedom Party said yesterday.

The IFP said its chairman for Emahashini section in Wembezi, Mr Alfred Miya, was seriously wounded in a handgrenade attack on his trading store in central Estcourt yesterday.

His shop assistant, Zodwa Sokhela, was also seriously wounded, IFP official Mr Velaphi Ndlovu said.

Police have confirmed the attack.

The blast came a day after the launch of a Local Dispute Resolution Committee in the Estcourt-Wembezi area.

The IFP said it dealt "a tremendous blow to fragile peace initiatives taking root in the area".

Strife-torn region

Meanwhile, African National Congress Natal Midlands leader Mr Harry Gwala said he was not aware of a meeting with the IFP aimed at forging a peace initiative in the strife-torn region

Gwala was responding to Natal-KwaZulu Regional Dispute Resolution Committee chairman MC Pretorius, who had said the ANC Midlands chairman and his IFP counterpart, Mr David Ntombela, would meet soon to plan a formal meeting aimed at securing peace in the region

"This is the first time I hear of it," Gwala said yesterday

He said the ANC had indicated its willingness to hold a joint rally with the IFP in Maritzburg — *Sapa*

Bill lowers boom on smokers

■ Last gasp for health warning and fag-puffing minors

198

By Ismail Lagardien
Political Correspondent

Sowetan 24/3/93

LEGISLATION tabled in Parliament yesterday will ensure that the hazards of smoking are printed on cigarette packets and that these may not be sold to persons under the age of 16

The Tobacco Products Control Bill will even make it an offence for owners of or people in control of vending machines to allow anyone under the age of 16 to buy cigarettes

The memorandum to the Bill reads in part: "Firstly, the Bill intends to make the public aware of the health hazards involved in the use of tobacco products "To achieve this object it is proposed that the Minister be empowered to prescribe the information regarding hazardous constituents in tobacco products that is to appear in advertisements and to be reflected on packages."

'Sin levy' increases on liquor and tobacco

198

CAPE TOWN — The price of partying has just gone up. BIDAY 18/3/93

Finance Minister Derek Keys yesterday slapped additional "sin" taxes on a wide range of alcohol and tobacco products. The adjustments take immediate effect.

The Minister, who described the increased duties as "relatively modest", said they would generate additional income for the state coffers of R320m in 1993/94.

The increases include:

☐ Beer: 4,8c a litre or about 2c a 340ml can or dumpy (increased revenue of R112m);

☐ Spirits: 37,7c a 750ml bottle (increased revenue of R50m);

Political Staff

☐ Cigarettes: 2,45c per 10 and 5c per 50g of cigarette tobacco (R99m);

☐ Pipe tobacco and cigars: 5c per kg (R400 000);

☐ Wine (fortified, unfortified and sparkling): 4c per 750ml bottle (R18,8m);

☐ Other fermented drinks, eg, cider: 10c a litre (R200 000);

☐ Sorghum beer and beer powder: 1c a litre and 5c a kg (increased revenue of R6m); and

☐ Cold drinks and mineral water: 2c a litre (R34m).

Few cheers over Budget

Star 19/3/93

198

By Paula Fray

Those who rely on cigarettes and alcohol for a good time may well regard Finance Minister Derek Keys as a party pooper — the products' prices could rise three times during the next few weeks

A beer dumpy, which cost R1,53 (R1,70 VAT inclusive) before yesterday's budget, now increases by 2c in excise duty (R1,55 VAT exclusive) and, with the new 14 percent VAT rate will cost R1,77.

A normal cigarette packet of 20s (now R1,60 VAT inclusive) increases by 5c in duty and will cost R1,70 after the VAT increase

A leading brand of 750ml whiskey, being sold at R37,10 in a Johannesburg liquor store yesterday, will cost R38,61 after the 37,7c tax rise and new VAT.

But, there is more

When petrol price increases begin to filter through, consumer groups expect more price increases

Star 18/3/93

Smokers' tax 'too low'

The Government's decision to increase tax on cigarettes by only 5c for 20 was a "pathetic response", according to the Medical Research Council's group executive, essential health research, Dr Derek Yach.

"Our recommendation was that a R1 increase would have raised an estimated R1 billion in extra revenue, which is desperately needed for health and social services," he said.

South Africa had among the lowest excise tax for cigarettes in the world, he added. — Medical Reporter.

UTICO FM 12/3/93 (198)

Beating the market trend

Activities: *Makes and markets cigarettes, tobacco and snack food*
Control: *BAT Industries Plc 63,6%*
Chairman: *F N Haslett, MD D B Edmunds*
Capital structure: *6,1m ords Market capitalisation R536m*
Share market: *Price 8 800c Yields 3,7% on dividend, 6,2% on earnings, p e ratio, 16,2, cover, 1,7 12-month high, 8 800c, low, 5 900c Trading volume last quarter, 40 143 shares*

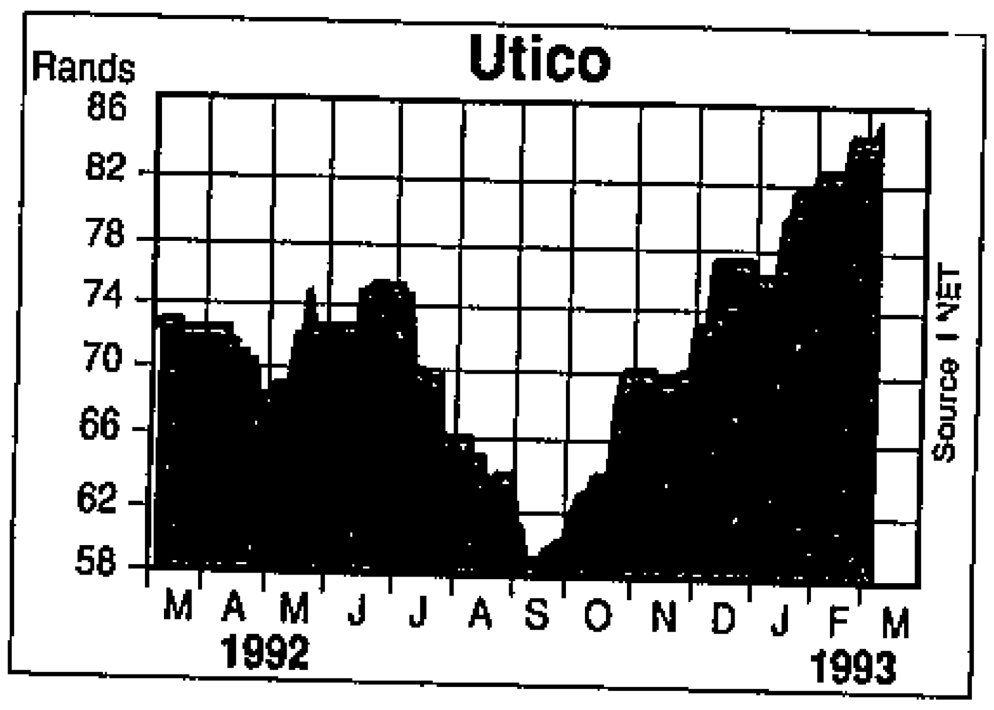
Year to Dec 31	'89	'90	'91	'92
ST debt (Rm)	6,5	7,7	5,7	10,5
LT debt (Rm)	4,7	7,9	10,0	12,0
Debt equity ratio	0,12	0,15	0,13	0,17
Shareholders' interest	0,48	0,46	0,44	0,45
Int & leasing cover	23,2	16,7	15,8	10,9
Return on cap (%)	19,4	20,3	21,4	21,8
Turnover (Rm)	361	440	517	573
Pre-int profit (Rm)	38	46	56	64
Pre-int margin (%)	10,4	10,4	10,9	11,2
Earnings (c)	307	368	466	524
Dividends (c)	153	205	280	314
Net worth (c)	1 540	1 703	1 920	2 184

Financial 1992 was another year of creditable earnings and dividend growth for this tobacco and snack food group, but it marked the end of a six-year record of real growth Though the pace was slower than in previous years, Utico's shareholders could hardly have been disappointed with the results, derived more from management efforts than from a buoyant market

EPS rose 12,5% on turnover growth of 10,8% This figure was marginally depressed by the sale of the Fresh-Up juice operation. MD Bruce Edmunds says improved asset management — with tight control of overheads and other costs — helped to counter recession, drought and consumers' shrinking disposable income. The operating margin widened, resulting in a 13,4% increase in operating profit

The tax bill of R26,4m (R24,6m), and in particular a 63% jump in interest paid to R5,9m (which looks less formidable against the 167% leap at the interim), put a ceiling on the rise in attributable income The significant rise in the interest bill came, says Edmunds, from the full effects of the investment in Willards' Parow plant and the United Tobacco modernisation programme Interest cover remains at a healthy 11 times.

Utico's Edmunds
improved asset management



Debt equity is still a comfortable 17%, having risen from 13,5% in 1991 There is a positive extraordinary item of R3m relating to the sale of the Fresh-Up juice division to Royal Foods

Working capital increased from R84,6m to R98,4m Financial director Seville Chonin attributes this to an 18% increase in debtors because of cyclical factors, along with buoyant sales last December, and a decline in creditors off 1991's high base

Though the tobacco market showed little growth, sales of Benson & Hedges cigarettes, the group's dominant brand, were good, with market share maintained Sales of pipe tobacco improved largely because of the benefits of the Rustenburg rationalisation programme in 1991 The acceleration of the Industria modernisation programme and the consolidation of all cigarette production have improved margins and enhanced the return on net trading assets

Difficulties experienced by the Willards division affected earnings growth the most Recessionary conditions were worsened by the effects of the drought on the potato supply, price and quality The company absorbed the higher costs Snack sales, nevertheless, posted positive real growth and an

FM 12/3/93 (198)

improved operating margin, aided by a market trend away from potato crisps to extruded corn-based products — the company's range of snacks in this market sector is particularly strong

Though the squeeze on disposable income will continue to dampen sales volumes, the tobacco and snack food divisions should benefit further from capital investments

Capex this year is estimated at R19,3m. Chonin says most will be absorbed by the modernisation programme, which will be financed by retained earnings and borrowings Gearing is forecast to remain conservative

Earnings prospects depend largely on the economy and the agricultural crop If these improve, says Edmunds, earnings growth should match inflation The share, at R86, continues to outperform the Financial & Industrial index, a trend evident since 1990. With good prospects for longer-term volume growth for tobacco and snack food interests, investors should consider increasing holdings of the share *Marylou Greig*

Utico gears up for even tastier results

BIDM 9/3/93 (198)

MARCIA KLEIN

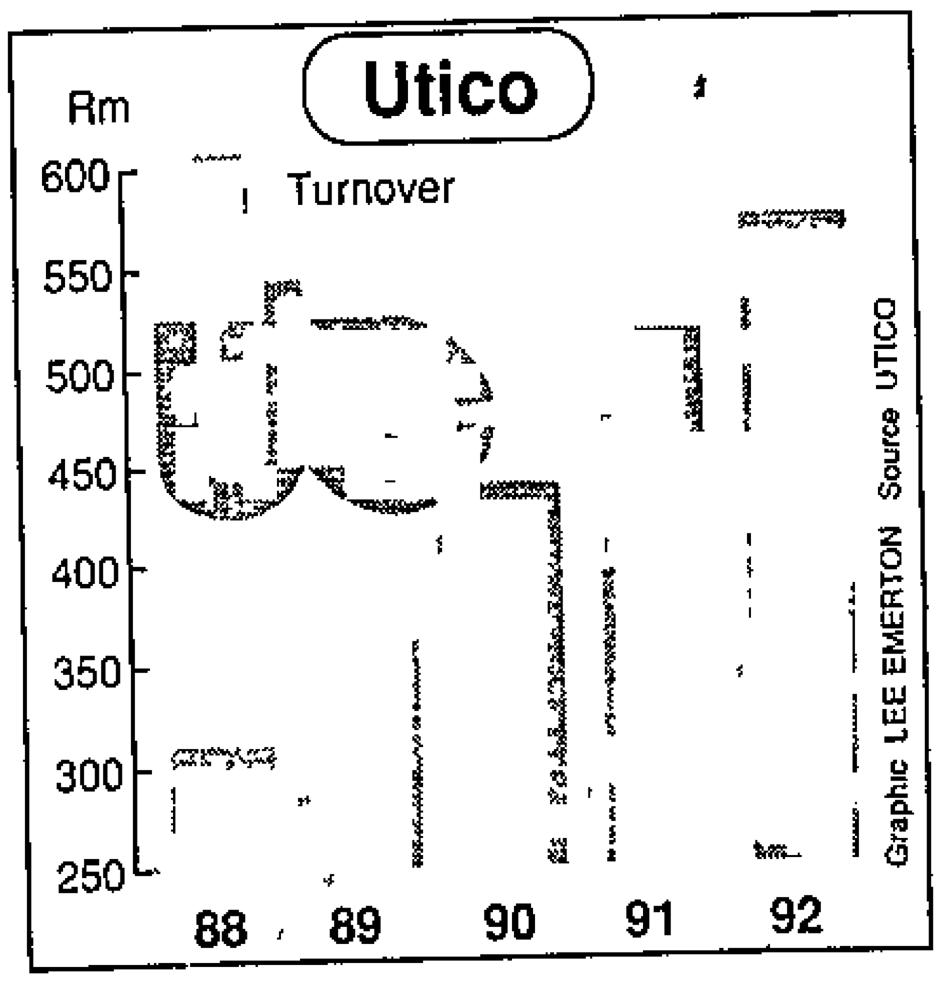
TOBACCO and snacks group Utico would extend its modernisation programme in 1993 in a drive to improve quality, service and productivity further and to ensure it could take advantage of an upturn, chairman Fred Haslett said in the annual review

Although the investment would increase borrowings, gearing would remain at a comfortable level, he said

Utico, whose interests include some major cigarette brands and Willards snacks, recently announced a 12,5% increase in attributable income to R31,8m in the year to end-December off a 10,8% turnover rise to R573,5m

The interest bill rose by 63,4% to R5,9m as the full effect of the investment in the Willards Parow plant was felt But interest cover remained a high 10,9 times

Commenting on the results, Haslett said consumption expenditure in 1992 had declined in real terms for only the second time in the past five decades



The cigarette market had been subject to the contraction in consumer spending. Nevertheless, sales of Benson & Hedges were good, and Benson & Hedges Special Mild retained its position as SA's largest selling mild cigarette

Following the modernisation of the Industria factory, the Rustenburg factory was discontinued and all cigarette production consolidated at Industria

Sales of pipe tobacco had improved, and the benefits of the Rustenburg rationalisation programme were being felt

Haslett said United Tobacco reported "an acceptable attributable earnings growth" notwithstanding the increased interest burden due to the modernisation programme

The Willards Food division reported real growth and an improved operating margin

Haslett said depressed conditions in the snack market were exacerbated by the direct effects which the drought had on potato supply, price and quality

He said the market continued "to trend away from potato chips to extruded corn based products" Willards was strong in this market, and sales of Big Corn Bites, Cheesnacks and Cheese Curls "were especially buoyant"

During the year, the group made a significant investment in new extrusion technology which enabled the successful launch of a new snack concept called Hula Hoops

Rembrandt losing ground in market

Star 4/3/93

(198)

By Stephen Cranston

Unusually, the Rembrandt Group's share price has fallen to the extent that, at R24, its price earnings ratio of 13 is around 90 percent of the market average

The group usually enjoys a premium rating because of its exceptionally high market share — perhaps as much as 87 percent — in the tobacco market which has proved a strong cash generator underpinning group results.

But there is a good chance that the tobacco market will show negligible volume growth for the year to March because of the pressure on consumer spending and increased excise duty.

In the five months to August retail sales of tobacco fell by 3,1 percent in real terms, although Rembrandt has offset this to some extent by increased market share.

But in the longer term South Africa, with a predominantly Third World population, still has potential for organic growth. The average black smoker gets through 10 cigarettes a day compared with 20 by the average white smoker.

Results

Analysts predict that Rembrandt will report at worst flat earnings and at best a six percent increase, with most estimates at three percent This is substantially below the increase in dividends which were declared in January and averaged 11 percent higher

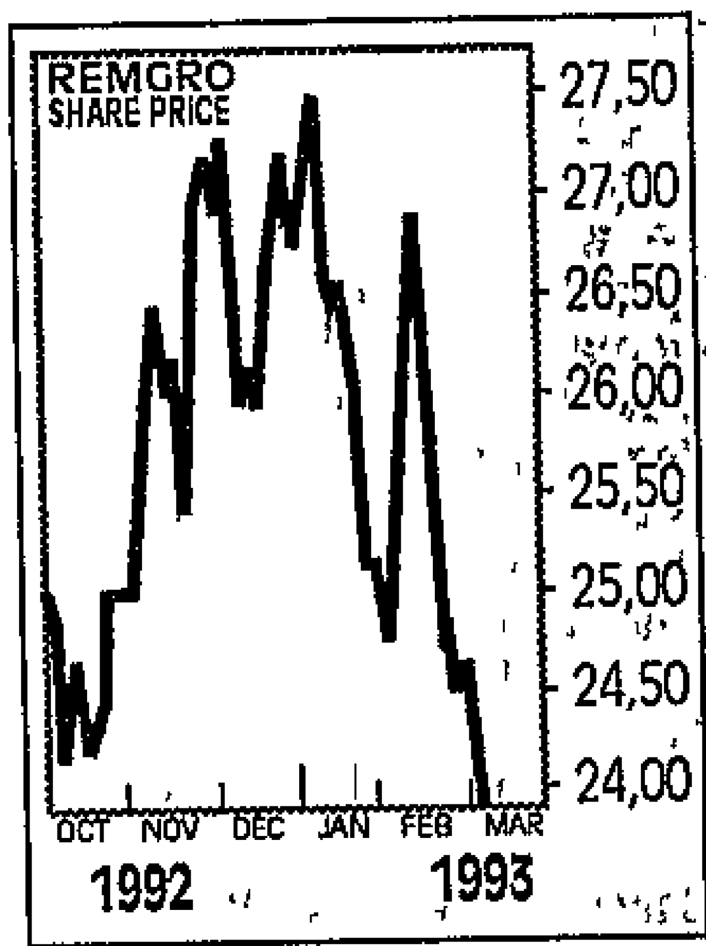
This is hardly disastrous in view of some recent results but it is poor for Rembrandt, which has reported 20 percent compound annual earnings growth since it hived its overseas investments into Richemont in 1988

Of course Rembrandt, as a highly liquid share, is acutely sensitive to changes in sentiment. Its recent rise and fall closely mirrors that in the industrial index

But it goes further than that The market is starting to question how well Rembrandt is using its cash in diversification

Rembrandt has avoided most of the pitfalls of a conglomerate by its policy of partnership It does not get involved in management outside its areas of expertise, tobacco and liquor, but leaves it to experts in those fields

Its choice of partners, however, is often open to question Recently some results have been shocking even in the current trading environment.



Rainbow

Hunt Leuchars & Hepburn reported a 51 percent reduction in earnings, brought about largely by losses from its associate Rainbow Chicken. Rainbow was one of the high-flying shares on the stock exchange when it listed in 1989 yet management invested heavily at a time when the market was nosediving and failed to predict the decline in consumption

Fraser Alexander's recent announcement of a 33 percent earnings decline in the six months to December was a further blow, caused by losses at its coal trading operation in the UK.

Arguably, in both cases a more active involvement by Rembrandt could have made a material difference.

Rembrandt has a heavy exposure to the mining sector through Gencor Beherend and GFSA, part of which was expensively acquired in the late eighties This is also acting as a dampener currently but offers considerable earnings upside in the medium term

And with the likelihood of tobacco sales rebounding in 1994, Rembrandt should offer rewards to the more patient investors filiated membership of approximately one million During the sanctions debate of 1986 the organisation was largely responsible for ensuring that a ban on the importation of hunting trophies from South Africa to the United States of America was not included in the United States of America's federal sanctions legislation against South Africa A substantial number of members of the Safari Club International have over recent years spent millions of rands in South Africa on hunting safaris The Safari Club International has also built a museum in Tucson, Arizona, housing a South African exhibition which displays South Africa's wildlife, thereby promoting tourism to South Africa

At the time when the contribution was made, it was the task of all South African missions abroad to counter trade sanctions The contribution that was made by the then South African Ambassador in Washington, Dr P G J Koornhof, to the Safari Club International, occurred in this context

Government Service Pension Fund: investments

*12 Mr R M BURROWS asked the Minister of Finance

(1) Whether there has been any change in the policy regarding the investment of accumulated funds of the Government Service Pension Fund, if so, (a) what change and (b) what effect has the change had in financial terms in regard to increased interest and/or dividends,

(2) whether it is the intention to extend any investment policy to utilize most or all of the accumulated funds of other State pension funds, if not, why not, if so, (a) in what manner and (b) over what period,

(3) whether he will make a statement on the matter? B168E

The MINISTER OF FINANCE

(1) No,

(2) all the accumulated funds of other State pension funds are managed by the Public Investment Commissioners along similar lines as the funds of the GSPF,

(3) No It should however be pointed out that the Commissioners have recently decided not to renew the management contracts for the six private sector portfolio managers who have been managing R3 billion of GSPF funds The experiment, over the past three years, has proved to be a costly exercise with limited benefits, while the PIC have managed to turn in a better performance than most of the private sector managers

Universities/technikons' subsidies

*13 Mr R M BURROWS asked the Minister of National Education

(1) Whether any universities or technikons are to receive in respect of 1993 the full amount which they should receive under the formula-funding policy administered by his Department, if not, why not,

(2) whether any of these universities or technikons are to receive less money from the State in real terms in 1993 than they did in 1992 in terms of the amounts determined by his Department, if so, which of these institutions,

(3) whether he will make a statement on the matter? B169E

The MINISTER OF NATIONAL EDUCATION

(1) Since the Minister of Finance has not submitted the Draft Budget Bill for the 1993-94 financial year to Parliament yet, the details are not available at this stage

(2) Falls away

(3) No

DET: distance education

*14 Mrs C H CHARLEWOOD asked the Minister of Education and Training

(1) Whether, with reference to his reply to Question No 7 on 4 February 1992, the interdepartmental committee appointed to investigate aspects of distance education has brought up a report, if not, why not, if so,

(2) whether he will make the report public, if not, why not, if so, when,

(3) whether he will make a statement on the effectiveness of the various television programmes aimed at assisting Black pupils broadcast in 1992? B170E

The MINISTER OF EDUCATION AND TRAINING

(1) Yes

(2) No An initial version of the report was recently submitted to the Committee of Heads of Education Departments The Committee, of which the Director-general of National Education is the chairman, is considering the report, as well as the question concerning the publication thereof

(3) The project is at present being evaluated by an independent consultant A final report in this respect is expected by March 1993, after which it will be decided whether a statement will be made

Smoking: legislation

*15 Mrs C H CHARLEWOOD asked the Minister of National Health

(1) Whether she intends introducing legislation in respect of smoking during the current session of Parliament, if not, why not, if so, (a) when and (b) what will be the nature of this legislation,

(2) whether she will make a statement on the matter? 198 B171E

The MINISTER OF NATIONAL HEALTH

(1) Yes,

(a) it has been put on the legislative agenda for the current session of Parliament and will be tabled as soon as possible and

(b) the Bill envisages the control of the use, sale and advertising of tobacco products

It also empowers the Minister by regulation to—

— regulate the health warning and particulars regarding the hazardous constituents of a tobacco product which must appear on the packet and an advertisement thereof, and

— prescribe the claims which may not be made in the said advertisement

Provision is also made for a prohibition on the sale of tobacco products to persons who are under the age of 16 years,

(2) no 198

Aids orphans of victims

*16 Mr M J ELLIS asked the Minister of National Health

Whether any provision is being made for assistance to orphans of Aids victims in (a) urban, (b) rural and (c) peri-urban areas, if not, why not, if so, what is the nature of this assistance? B172E

The MINISTER OF NATIONAL HEALTH

(a) Yes,

(b) yes and

(c) yes, Children who are orphaned as a result of the HIV/AIDS phenomenon are handled the same as any other orphans within the existing welfare structure If necessary the children are legally placed in substitute care

Rights of Child: UN/RSA

*17 Mr L FUCHS asked the Minister of Foreign Affairs

(1) Whether, with reference to his reply to Question No 19 on 19 February 1992, the South African Government will now consider becoming a signatory to the United Nations Convention on the Rights of the Child, if not, why not,

(2) whether he will make a statement on the matter? B173E

The MINISTER OF FOREIGN AFFAIRS

(1) South Africa signed the UN Convention on the Rights of the Child of 1989 in New York on 29 January 1993

(2) The Minister of Justice, Mr H J Coetsee, MP, issued a press statement on 29 January 1993 and the media reported on the matter

continue —D.

Utico growth slows after record-breaking six years

(178)

B/DAY 1/12/93.

MARCIA KLEIN

TOBACCO and snacks group Utico increased its attributable income by 12,5% to R31,8m (R28,3m) in the year to end-December as tight cost controls helped to offset the severe effects of recession, drought and reduced consumer disposable income

MD Bruce Edmunds said although the result put a damper on Utico's six-year record of real growth, it had still managed to achieve satisfactory growth

The group, whose major products include Benson & Hedges, JPS and Winston cigarettes and Willards snacks, had experienced particularly bad trading conditions but had survived the recession well, he said

Turnover rose by 10,8% to R573,5m from R517,5m On a like-for-like basis, had the Fresh-Up juice division not been sold, turnover growth would have exceeded 10,8% Market shares remained steady across the group

Operating income was 13,4% higher at R64,1m from R56,5m, indicating an improvement in the operating margin Edmunds said this improvement was the most pleasing aspect of the results and had been achieved through tight cost control

The interest bill was 63,4% higher at R5,9m (R3,6m) as the full effect of the investment in the Willards Parow plant was felt Interest cover remained a high 10,9 times

Earnings, which were 12,5% up at 524c (466c) a share, had increased by 11,4% at the interim stage and by 13,1% in the second six months.

A final dividend of 197c a share was declared, to bring the year dividend up by 12,1% to 314c (280c) a share.

Edmunds said the snacks division was adversely affected by drought, which caused potato prices to rocket and made quality problematic

Notwithstanding the drought and pressure on consumer spending, the division had turned in a pleasing performance

The tobacco division had turned in a "steady performance"

The share closed yesterday at a high of R82,50, after touching a low of R59 in September

UTICO FM 19|2|93.

Less crackle

198

Few companies so reliant on consumer expenditure can boast a five-year compound earnings growth of 28,7%, especially as much of this occurred in full-blown recession. But in the year to December this figure was clipped to 19,2%, as tobacco and snacks group Utico fell foul of difficult trading conditions It still posted a creditable 12,5% EPS advance, but ended a six-year record of real growth.

MD Bruce Edmunds says improved asset management — with tight control of overheads and other costs — helped to counter recession, drought and shrinking consumer

FM 19|2|93 (198)

disposable income The operating margin widened to 11,2% (10,9%). As management warned at the interim, second-half sales were down on year-ago levels

Stocks are high at R129m, which reflects the large leaf stocks, a feature of the industry. The figure was only 3% up on a year ago. Net working capital (stock plus debtors less creditors) increased to R98,4m (R84,6m), or 17,2% (16,4%) of turnover "Reasons for the increase in working capital are twofold," says financial director Seville Chonin. "These were an 18% increase in debtors due to cyclical factors and buoyant sales in December 1992, and the decline in creditors, which came off a particularly high base in 1991"

Operating income rose 13,4%, but growth in attributable income was stifled by a tax bill of R26,4m (R24,6m) and, more particularly, a 63% jump in interest paid to R5,9m (though this figure looks less formidable against the 167% leap at the interim)

FEELING THE PINCH

Year to	Dec 31 '91	Dec 31 '92
Turnover (Rm)	517	573
Operating income (Rm)	56,5	64,1
Attributable (Rm)	28,3	31,8
Earnings (c)	466	524
Dividends (c)	280	314

Underlying this, says Edmunds, is the full effect of the investment in Willards' Parow plant, which is running well, and the United Tobacco modernisation programme Interest cover remains a healthy 11 times

Capex this year is estimated at R19,3m Chonin says most will be absorbed by the modernisation programme It will be financed by retained earnings and borrowings. Gearing is now about 17%

An extraordinary item of R3m follows the sale of the Fresh-Up juice division to Royal Foods, marginally depressing turnover

Details are not disclosed, but it's no secret that the tobacco market has remained flat One can infer that the reduction in earnings growth came primarily from trading difficulties experienced by the Willards division Edmunds agrees the drought has adversely affected the supply of potatoes and their quality. The company absorbed the resultant higher costs

Edmunds is reluctant to forecast performance, saying much depends on the economy and the agricultural crop If these improve, earnings growth should match inflation

Utico is well managed and longer-term volume growth prospects for both divisions are favourable Though most shares are firmly held by BAT Industries Plc, this has not restrained the price (now R82,50) which has performed well against the Financial & Industrial index since 1990 It has climbed 29% since release of the interims. Latest results may offer an opportunity to increase holdings

Marylou Greig

Star 17/2/93

British group gets contract for SA stainless steel plant

(198A)

LONDON — Davy International, part of the Trafalgar House engineering-to-hotels group, has won the UK's largest export order to South Africa in recent years with a £200 million (R900 million) contract to supply a complete stainless steel rolling mill.

The contract is for the expansion of the Columbus stainless steel plant at Middelburg, which will quadruple South Africa's stainless steel capacity to 500 000 tons a year from 1995, and turn it into the world's sixth largest producer.

The order is a big boost for Britain's heavy engineering sector. Most of the equipment will be bought in the UK from suppliers, including GEC and Bronx Engineering.

The order was won against strong international competition.

Fred Boshoff, chief executive of Columbus, said there had been tremendous interest in the tenders for the project, with bids from companies in the UK, France, Germany, Italy, Austria and Japan — Financial Times.

Stronger second half boosts Utico's profits

By Stephen Cranston

Star 11/2/93 (198)

Utico improved earnings per share by 12,5 percent to 524c in the year to December, which is slightly below market expectations.

The second half of the year, however, proved stronger than the first with a 13,1 percent increase in earnings after an 11,4 percent increase in the first half.

The dividend was increased by 12,1 percent to 314c.

The tobacco and snack foods group's turnover increased by 10,8 percent to R573,5 million and volumes were almost unchanged.

Operating income was up 13,4 percent to R64,1 million and the operating margin from 10,9 percent to 11,2 percent.

Borrowings were up from R15,7 million to R22,5 million and interest payments jumped 63,4 percent to R5,85 million. Gearing increased from 13,5 percent to 17 percent. Interest cover was a conservative 10,9.

Gearing will be put under further pressure by the group's capital commitments of R19,25 million, up from R14,5 million at the end of 1991.

The income statement reflects an extraordinary profit of R3,11 million on the disposal of the Fresh-Up juice division to Royal Foods

Rembrandt's dividends rise by 11%

198

LINDA ENSOR

CAPE TOWN — Rembrandt group companies increased their total dividend payments by a slightly better than expected 11% for the year to end-March 1993, but analysts cautioned yesterday the performance at earnings level was unlikely to match this rise.

The group, which announces its dividends ahead of its results, has in the past tended to increase dividend payments at a faster rate than earnings growth.

The group's trademark businesses were expected to perform strongly despite the downturn, but its mining and industrial interests were not expected to do as well, analysts said.

Rembrandt Group declared a final dividend of 22c (20c) bringing the total to 36,2c, a rise of 11% over last year's 32,6c, while Rembrandt Controlling Investments' final dividend of 16,29c (14,81c) brought the total to 26,8c (24,14c).

Technical & Industrial Investments' final dividend of 15,16c (13,78c) gave a total of 24,93c (22,45c).

Technical Investment Corporation declared a final dividend of 14,3c (13c) resulting in a total dividend of 23,52 (21,18c)

Star 15/7/93

Shares lag restructured Richemont's asset value

(198)

By Stephen Cranston

The restructuring of Richemont's tobacco and luxury goods operations should unlock the underlying value of its assets and lead to a more efficient corporate structure, says Pierre Greyensteyn, an analyst at stockbrokers Davis Borkum Hare

Greyvensteyn says this will lead to a more market-related valuation of Richemont's net asset value, which is estimated at R47,24, compared with the present share price of around R40

He predicts that Rothmans should return earnings growth at the attributable level of 17 percent and Vendome eight percent in financial 1994 and then 14 percent and 13 percent in 1995

Richemont's earnings will improve by eight percent in 1994 but the effects of the corporate restructuring will enable it to report a 27 percent improvement expressed in sterling in 1995 and the depreciation of the rand against sterling will add a further 13,7 percent to the increase in rand earnings

The restructuring will provide focus, as all the tobacco trademarks will be owned by Rothmans.

The luxury goods operations will become more vertically integrated in purchasing and distribution which will result in cost savings

Richemont will receive £300 million of the surplus cash paid out by Rothmans and Dunhill, which with £480 million in existing cash and improved dividend flow will be able to eliminate corporate debt, particularly the £613 million in 10,25 percent loan notes in favour of Philip Morris.

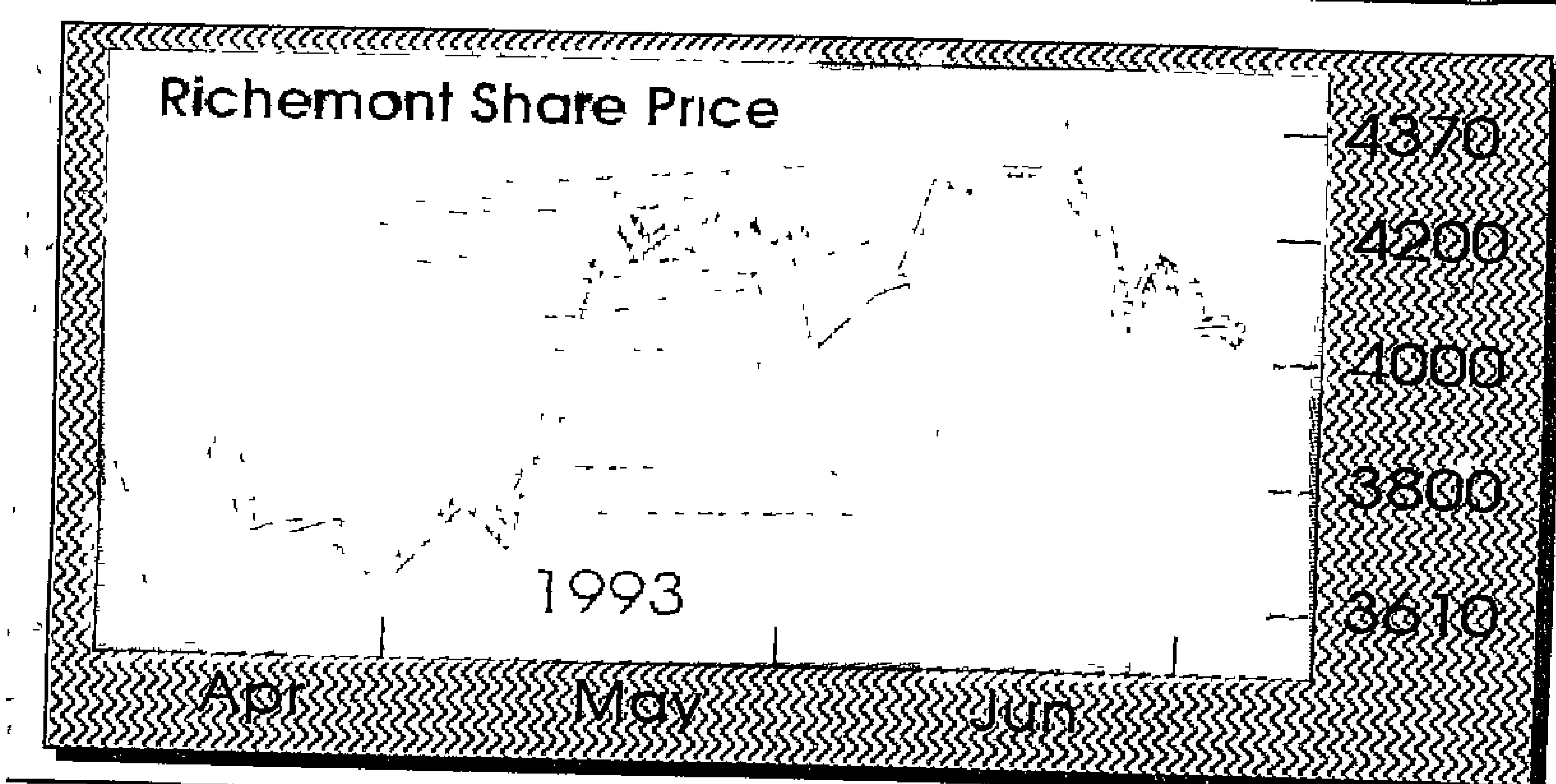
The new subsidiaries intend to reduce their dividend covers, giving Richemont a dividend flow in the first year of about £75 million, which should allow Richemont to pursue other investment opportunities in the medium to longer term without the burden of incurring corporate debt

The operating margins of the tobacco companies will be helped by the falling tobacco leaf prices, which in Zimbabwe fell by 41 percent after two weeks of sales

The market has been flooded by a huge crop from Brazil and aggressive increases in the export of low-cost filter styles by China and India

Many leaf-growing countries are pushing surplus stocks from past seasons at bargain rates and many cigarette manufacturers have large unexpected stocks on hand

Vendome faces a depressed European economy for the rest of this year. About 51 percent of Cartier sales and 30 percent of Dunhill's sales are derived from Europe.



FM 9/7/93 (198)

LION MATCH FM 9/7/93.

Signs of light

(198)

Lion Match — which makes ~~matches~~ matches, lighters, electrical appliances and does packaging — had a good year, with turnover up 6% to almost R295m This takes into account the transfer in January 1992 of the previously consolidated appliances division to an equity-accounted joint venture Operating margins improved slightly after this adjustment The figures in the table show the results

Activities: *Makes, sells and distributes consumer products including lighters, matches, shaving products and packaging*
Control: *SAB 70,6%*
Chairman: *L van der Watt, MD E M Turner*
Capital structure: *45,4m ords Market capitalisation R168m*
Share market: *Price 370c Yields 3,8% on dividend, 9,2% on earnings, p e ratio, 10,9, cover, 2,4 12-month high, 370c, low, 170c Trading volume last quarter, 42 000 shares*

Year to March 31	**'90**	**'91**	**'92**	**'93**
ST debt (Rm)	0,3	6,8	12,7	4,3
LT debt (Rm)	57,6	48,8	23,2	23,0
Debt equity ratio	0,57	0,51	0,25	0,19
Shareholders interest	0,45	0,46	0,51	0,6
Int & leasing cover	3,4	3,4	3,1	6,0
Return on cap (%)	15,6	16,7	17,3	17,4
Turnover (Rm)	280	331	330	295
Pre-int profit (Rm)	34	40	39	42
Pre-int margin (%)	12,3	12,1	11,9	14,2
Earnings (c)	30,1	34	28	34
Dividends (c)	13,0	14,0	11,5	14,0
Tangible NAV (c)	221	242	256	320

Divisional breakdowns are illuminating Of the three consolidated subsidiaries, packaging showed most growth The division accounts for 54% of group turnover and 40% of trading profit. Its trading profit rose 26% on a 13% advance in turnover The rise in operating margin was due mainly to efficiencies in purchasing and usage of raw materials Stocks fell by 6% and borrowings by R4,8m

The lights division is the second-largest in turnover but the largest in trading profit, contributing 38% and 56% respectively Though the margins are good, there does not appear to be much growth potential in this market Turnover dipped.

Toiletries & household is the smallest consolidated division, contributing just 8,5% to group sales There was a small increase in turnover but operating margins narrowed Despite a decline in the toiletries market, Wilkinson Lion Consumer Products lifted market share Sales rose 11% at the expense of margins Home and garden suffered a 17% fall in sales

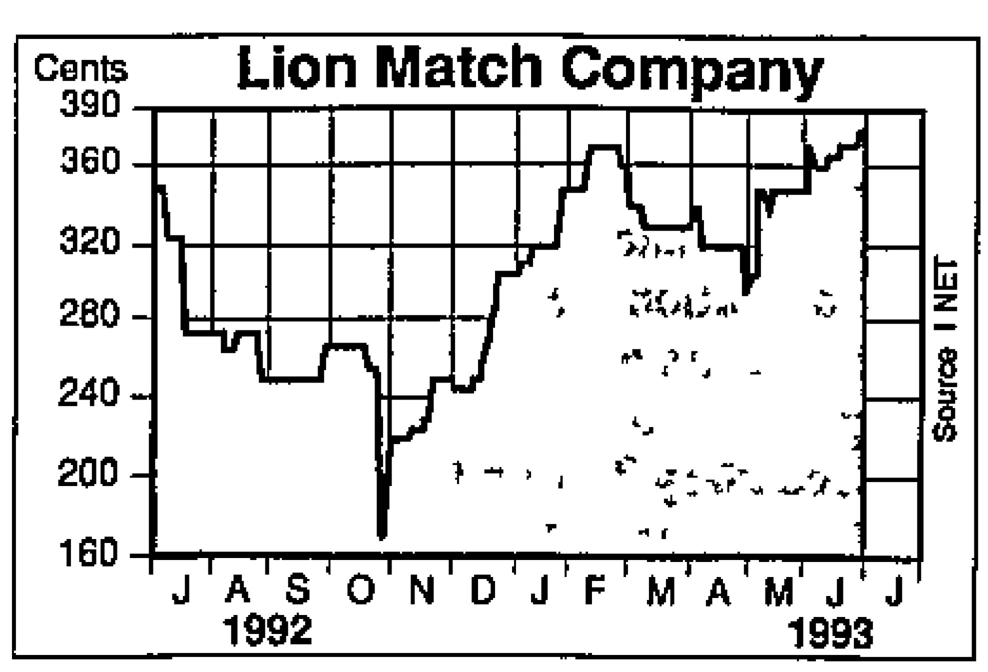
The amalgamated appliances division had a tough first year of operation, resulting in an equity-accounted loss of R5m to Lion Match The joint venture with Tedelex, Lion's erstwhile local competitor, involved major rationalisation MD Ted Turner says the joint venture resulted in "the closure of two factories, staff layoffs and the reduction of the product range from 85 to 38 " Margins were under severe pressure from aggressive pricing in the small appliances market

Lion Match benefited from lower financing costs, resulting in a 30% increase in pretax profit The effective tax rate fell to 41,7% (including STC) mainly due to a change in the deferred tax rate Taxed profit was up by two-fifths Unfortunately, part of this gain was eroded by the equity-accounted loss Attributable earnings increased 22%

The share price has more than doubled since October 1992, rising from a low of 170c to 370c, where it stands on a p e of 10,9 and at a 16% premium to NAV After the recent surge in the price, any further increase will depend partly on a turnaround in the amalgamated appliances division Turner says attention will be focused this year on control of the division's working capital, there should be no more big write-offs

The rest of the good news — growth in packaging and good margins in the lights division — will already be in the price.

Louise Randell



Price of a puff goes up immediately

BDay

MARCIA KLEIN

SMOKERS will fork out more money for their cigarettes with immediate effect following yesterday's increase in cigarette manufacturers' prices.

Intercontinental Tobacco said yesterday there had been some confusion The manufacturers' price increase to wholesalers was effective from yesterday and not from August 1 as had been reported. 9/7/93

Retailers were at liberty to adjust prices as and when they deemed fit The increase was roughly 2%, but varied depending on trademarks This would translate to about 6c for 20 cigarettes after VAT

Some retailers — like the OK — said they would hold prices at current levels while stocks lasted Some cafes said they would increase packs of 20 by about 8c from R2,75, and packs of 30 by 12c from R4,10. The increases at major retail chains would generally not be as high as this

Although the major manufacturers could not be reached for comment, tobacco industry sources said the increases represented increased factory costs, and not a rise in the price of tobacco.

(198)

244 198

CT 8/7/93

Cigarette price to go up by 2,8%

Own Correspondent

DURBAN. — The price of cigarettes is to increase by six cents for a packet of 20s and nine cents for a packet of 30s from August 1, a spokesman for a major retailer confirmed yesterday

Senior buyer for Pick 'n Pay Mr Michael Lafferty said the chain's cigarette suppliers had informed him of the increase, without notice, early yesterday

"This increase of 2,8% means the price of cigarettes has increased by a total of 13,75% over the past 12 months.

"In July 1992 manufacturers raised their prices by 4,1%. In March this year it went up a further 2,8% as part of a government excise increase, then it jumped 4% with the VAT increment in April."

Merchandise director for Spar Natal Mr Mike Forsyth confirmed that he had also been told about the increase but said it was not excessive

Cigarette prices set to rise up to 3%

198

ARG 8/7/93

Business Staff

SMOKERS will pay more for cigarettes after an increase in the wholesale price

Introduction of the new recommended prices will depend on how quickly wholesalers and retailers pass on the increases and run out of old stock

Rembrandt pushed up prices to wholesalers yesterday. The increase will result in retail prices rising between 2 and 3 percent

At the same time Rembrandt has reduced the number of price categories with the recommended price for cheaper brands (packs of 20) going from R2,44 or R2,45 to R2,50

The middle-priced brands go from R2,49 to R2,55

The "international" and luxury length-type cigarettes will be in a new price range of R2,62 to R2,70

Cheaper packs of 30 go from R3,68 to R3,75 and the middle range from R3,73 to R3,80

A wholesaler said today most wholesalers would start passing on the new prices from early next week It was up to retailers to decide when to pass on the increases

Tobacco and liquor score

198 ARG 6/7/93

□ Consumer spending earns Rembrandt R452,7 million

MARC HASENFUSS
Business Staff

TOBACCO and liquor earned R452,7 million for the Rembrandt Group in the year to the end of March — representing nearly half (47,6 percent) the group's total earnings

Chairman Mr Johann Rupert said in his annual review the Trade Mark Group (which consists mainly of tobacco and liquor) increased its contribution to the bottom line by 10 percent in spite of reduced disposable income and increasing input costs

Remgro's mining interests under Tegniese Mynbeleggings (TMB) made up slightly more than a quarter (25,1 percent) of attributable earnings, increasing its contribution 5,3 percent to R239,2 million in the period under review

Mr Rupert said the recent surge in gold and other precious metals should have a favourable impact on results for the coming year — on condition prices were maintained at the higher levels

Remgro's industrial interests recorded disappointing results in the year to March — profits down 25,4 percent to R91,2 million (previously R122,3 million)

Industrial interests — as a percentage of total earnings — dropped markedly to 9,6 percent from 13 percent in the previous year

Mr Rupert said the effect of Rainbow Chicken's losses on Remgro amounted to R15,6 million

However, he said that engineering interests — particularly the listed operations of Dorbyl and holding company Metkor — were still experiencing extremely difficult trading conditions

The contribution by Financial Services increased 11,4 percent to R78,3 million — representing 8,2 percent of group earnings (previously 7,5 percent)

■ Since the year end Remgro had acquired a 15 percent partnership in Vodacom Remgro's investment in the cellular telephone network operator would be around R100 million

Remgro chairman says new taxation bodes well

BiDay 6/7/93

198

MARCIA KLEIN

WHILE the Rembrandt Group (Remgro) made no forecasts for the coming year in its 1993 annual review, new chairman Johann Rupert said changes in taxation would have a positive effect on earnings, and certain interests would improve performance

The tobacco, mining, industrial and financial services group recently reported a 1% rise in earnings to 182,1c a share in the year to end-March on a 6% rise in net income before tax to R1,24bn

Rupert, who took over as chairman last November, said results reflected the negative effect of the drought and unrest, as well as retrenchments and the resulting decrease in consumer purchasing power.

They also reflected downsizing of some business sectors like engineering, in which the group had an interest

There were low precious metal and commodity prices during the year Lower interest rates affected the group's earnings from cash resources

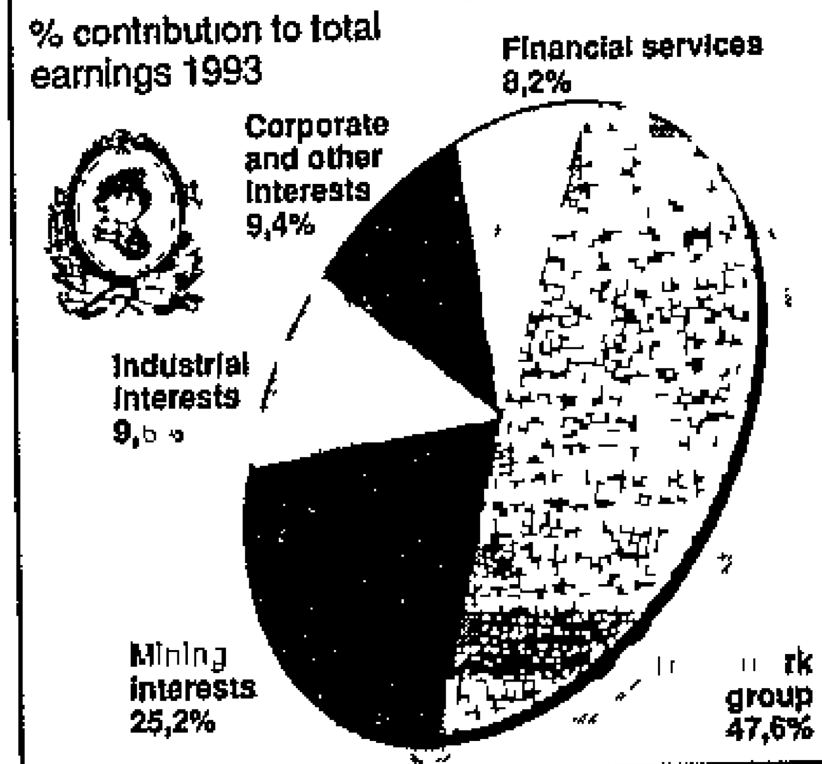
Nevertheless, the trademark group increased its contribution by 9,9% to R452,7m or 47,6% of total earnings

The division, which includes the tobacco and liquor interests, increased earnings in line with inflation despite the recession

Rupert said there was a general pressure on volumes, and production

Rembrandt Group

% contribution to total earnings 1993



Graphic RUBY GAY MARTIN Source REMBRANDT GROUP

units were under increased pressure to maintain and improve quality and productivity

The mining interests, held through wholly owned Tegniese Mynbeleggings, increased their contribution by 5,3% to R239,2m or 25,2% of earnings Mining interests continued to experience difficult trading conditions, largely due to low international commodity prices Results for the coming year should benefit from the recent surge in the price of gold and other precious metals

Industrial interests reported disappointing results, dropping their share by 25,4% to R91,2m or 9,6% (13%) of earnings

Huntcor was affected by the drought, the depressed economy and substantial losses in associate Rainbow The effects of these losses on Remgro was R15,6m

Robertsons showed a satisfactory increase in earnings

Engineering interests held in Metkor and Dorbyl experienced difficult trading conditions

Financial interests reported an 11,4% rise to R78,3m or 8,2% Remgro sold its interest in Momentum Life and the balance of its share in Standard Bank Investment Corporation for a combined capital surplus of R47,3m

Results from corporate and other interests declined by 18,5% because of a prior year taxed surplus of R11m, lower interest income due to lower interest rates and a decrease in the average level of surplus funds following payment of a R156,6m special dividend.

The decline also reflected the acquisition of minorities in Tegniese Mynbeleggings for R460,7m

Since year-end, Remgro had bought a 15% partnership interest in Vodacom Group, which has applied for a cellular telephone network licence Remgro expected its investment to be about R100m

Rupert said Remgro paid income tax of R478,8m at a rate of 47,5% (45,8%) before dividends and other exempt investment income

With the recent change in the company tax rate to 40% and the introduction of secondary tax on companies (STC), the dividend income of the group — on which STC credits could be received — would be larger than the dividends paid by the company

(198)

Ruperts reap rewards from shake-up

ARG 3/7/93

NICK GOODWAY

THE South African Rupert family threw all their cards in the air last week and ended up with a near R1.500 million cash jackpot

Up went cigarette brands, including Rothmans, Dunhill, Peter Stuyvesant and Royal Up went Cartier watches, Montblanc pens, Chloé perfumes and Karl Lagerfeld accessories.

Down came two new companies — Rothmans, a pure tobacco business, and Vendôme, a purveyor of luxury brand names — and out fell R2 625 million of excess cash

Both the old quoted companies, Rothmans International and Dunhill, are controlled by the Swiss-based Richemont, in turn controlled by the Rupert family Proposals on the restructure are expected to be put to shareholders in September and dealings in the shares of the new companies, which will be listed in London and Luxembourg, should start in October

Although analysts welcomed the move, both quotes gave up some of the gains scored after news of the deal leaked out When the shares returned from suspension, Rothmans' price gave up 28p to 692p and Dunhill's quote slipped 22p to 383p

By injecting Cartier, which is jointly owned by Rothmans and Richemont, into Vendôme, the Rupert family has created one of the world's largest luxury goods businesses

On a proforma basis, Vendôme boasted sales of R12 billion in the year to end-March and made pre-tax profits of R2,2 billion Analysts point out that this was during the recession, and suggest that when the company comes to the market it could well be valued at more than R15 billion This would automatically guarantee an entry into the FT-SE 100 Index of leading companies

The new-look Rothmans boasted sales of just over R5 billion and pre-tax profits of some R1 025 million in the same financial year

The plan was devised by Richemont's managing director, Mr Johann Rupert, who said "The key objective in developing these proposals, which have been endorsed by Rothmans and Dunhill, has been to secure significant commercial benefits for our tobacco and luxury goods businesses

"These proposals will enable a more logical and efficient structure to be established We are therefore confident that all shares will benefit as a result"

Although the plans look certain to be approved by minority shareholders, there have been mutterings in some quarters that the deal could have been structured to allow the release of even more cash

Under the Rupert plan, shareholders in Rothmans and Dunhill will receive a cash handout worth a total of R2 625 million The new Rothmans will still enjoy net cash funds of R2 165 million and Vendôme will have R1 165 million

According to analyst Clive Richardson, of London broker Henderson Crosthwaite, the market's initial disappointment may have been misplaced "The deal has valued the tobacco company on a p/e ratio of 12 and the luxury goods company on a ratio of 18 That may prove to be too low for Rothmans

"Sentiment is currently bad on tobacco stocks because of the Philip Morris price in the States But Rothmans has very little in the way of US sales and there is a great deal in the way of growth to come from the company This is a strong recovery stock"

Rothmans will continue to be chaired by Lord Swaythling, while Joe Kanoui of Cartier will become chairman and chief executive of Vendôme

The document reveals Richemont has decided that Rothmans should adopt a radical change in its dividend policy Shareholders in Rothmans and Dunhill will all receive shares in the new companies, but while Dunhill's shareholders will receive broadly the same income, Rothmans' shareholders will see income rise by about 60 percent

Richemont outlines the commercial benefits of the restructure as freeing management to concentrate exclusively on the long-term growth of the tobacco business and allowing it the flexibility to exploit the brand names around the world

The restructuring of the luxury goods business is designed to enable it to deal with the need to support brands through distribution and competition The merger of Dunhill and Cartier, meanwhile, will allow management to develop an integrated distribution system while maintaining separate managements for the principal subsidiaries The merger is expected to produce purchasing, distribution and other cost savings

■ The Observer News Service

RICHEMONT FM 2/7/93

Making sense (198)

The commercial logic of Richemont's reshuffle of its international tobacco and luxury goods interests into two separate groups, Rothmans and Vendome, is flawless Cost savings are clearly achievable by melding Dunhill's relatively small cigarette business into the new Rothmans, and the same is true for its more important luxury side which goes in with Cartier, Piaget and other famous names, hitherto visible only obliquely through Richemont and Rothmans International (RI)

As much as commercial sense, a key motive is to enhance shareholder value — not that RI investors can complain about the 1 000% growth in the past decade, a feat exceeded by only four other stocks in the FTSE 100 index

The complex package deals with assets of about £7,6bn — the quoted RI is given a market value of £4,6bn and Dunhill £661m, with nearly £2,1bn put on unquoted Cartier plus £222m given to other luxury and tobacco brands In addition, £525m of surplus cash will be distributed from RI and Dunhill

see cont →

— their net liquid funds are £1bn and £120m respectively

Essentially, shareholders in the two quoted groups will receive

□ 1 000 new Rothmans and 500 Vendome plus £757 in cash for every 1 000 RI, and

□ 133 new Rothmans, 749 Vendome and £443 cash for every 1 000 Dunhill — a company which will disappear from the London listings

That will leave Richemont with £295m cash, 61% of new Rothmans and 70% of Vendome Minority shareholders in RI will have an unchanged 38% in the all-tobacco group and 18% of Vendome At Dunhill they get 1% of new Rothmans and 8% of Vendome The 4% balance of Vendome goes to the Belgian Sofina group which now has 10% of Luxco, the holding company which has 53% of Cartier and shares ownership with RI (47%)

Richemont MD Johann Rupert
adding value

To avoid UK tax problems for offshore shareholders, both companies will have a twinned structure, each with a listing in London and Amsterdam in the case of new Rothmans and Luxembourg for Vendome

Pro forma figures given by the announcement give

□ New Rothmans net sales of £2,4bn, pretax profit £451m and net attributable earning at £209m; and

□ Vendome turnover of £1bn, pre-tax surplus £205m and attributable £148m

They show EPS for New Rothmans of 31,5p and a "notional" dividend of 15,7p (covered twice), with Vendome units given 21,3p and a payout of 7,6p (covered 2,8 times) Including interest on distributed cash, Rothmans shareholders would enjoy a 63% income increase — though Dunhill investors would get about the same

The joint statement points out shareholders would enjoy "advantages" in future dividend payments and the pro forma figures emphasise this

With the pound's weakness cushioning a decline in tobacco volumes, in the year to March 1993 RI increased sales by 12,5% to £2,7bn with a 9% rise in pre-tax profit at £614m This netted down to EPS of 47,4p (up 11%), leaving the total dividend of 11,5p (up 12%) covered more than four times

RI's figures reflected in Richemont's result, with tobacco's contribution to operating profit up 12,5% at £413m, offsetting a 5,4% decline in luxury goods to £202,8m Associated interests dropped to £10m (£27,5m)

With net interest up 35% to £48,6m — liquidity rose £316,7m to £1,7bn with £147m of the gain due to currency movements — pre-tax profit was 5% up at £651,9m Recurring net attributable of £206,6m was 4,7% higher, giving similar gains in unit earnings and dividends

With £295m to come from the re-shaping, Richemont can face the £612m note repayment to Philip Morris (for its stake in RI) with even more equanimity

On a simple arithmetical basis, the pro forma attributable profit of new Rothmans (£209m) and Vendome (£148m) suggest an immediate boost for Richemont The 61% of new Rothmans and 70% of Vendome add up to £231m, nearly 12% better than Richemont's latest figure

By and large the restructuring has the London market's approval — though analysts expect possible objections from minority shareholders in Dunhill centring on the 14,7 multiple applied to its earnings against the 18 put on Cartier However, Cartier's operating margins of 20% compare with 17% at Dunhill

Some of the London financial press played up the loss of the ultra British Dunhill to a European-dominated Vendome This chauvinism should be allayed by the enthusiasm of Dunhill chairman Lord Douro, descendant of the Duke of Wellington, who joins Vendome as executive deputy chairman

But minority shareholders will decide the outcome in both cases — approval of 75% is required. Richemont will not vote at the Rothman's extraordinary meeting nor will RI vote at Dunhill's It remains to be seen whether Dunhill's outsiders will press for a better deal.

As to increased value for shareholders, that awaits the ratings which the market will accord new Rothmans and Vendome. Talk of a £3bn market value for Vendome presumes an historical multiple of 20, while on an unchanged p e of nearly 15 for RI applied to new Rothmans gives the latter a capitalisation of £3,2bn With the cash disbursement, this would apply a price of 861p to RI — against 704p as the *FM* went to press, a discount of about 18% following profit-taking On the same basis Dunhill at 381p was 11% below its theoretical worth of 426p.

John Cavill

£525m payout to shareholders

B/Day 28/6/93

MARCIA KLEIN

SHAREHOLDERS in Richemont subsidiaries Rothmans International and Dunhill will receive a cash payout of about £525m as part of the reconstruction of Richemont's tobacco and luxury goods businesses into two new quoted groups.

Richemont, ultimately controlled by the Rupert family, announced its new structure at the weekend as well as its results for the year to end-March. Attributable profit rose by 4,7% to £206,6m (£197,3m) on a 10,4% rise in sales revenue to £3,4bn.

Richemont said in terms of the reconstruction, the new tobacco group — which would retain the name Rothmans International — would comprise Rothmans' existing tobacco businesses, including its interests in quoted tobacco groups in Canada, Australia, Malaysia and Singapore, and certain tobacco trade marks currently owned by Dunhill and Richemont.

The new luxury goods group, which would be called Vendome Group, would own 100% of Cartier and Dunhill and would include Piaget, Baume & Mercier, Montblanc, Chloe and Karl Lagerfeld.

Both groups would have dual holding company structures, with shareholders holding units consisting of twinned shares in a UK and non-UK company. Rothmans would apply to list in London and Amsterdam and Vendome would apply to list in London and Luxembourg.

(~~232~~) (198)

□ To Page 2

Payout

B/Day 28/6/93

□ From Page 1

(198) (~~232~~)

Current Rothmans and Dunhill shareholders would get units in both groups in proportion to the underlying values of their respective companies' interests in tobacco and luxury goods. In addition, they would receive about £525m in cash.

For every 1 000 Rothmans B ordinary shares held, shareholders would receive 1 000 Rothmans shares, 500 Vendome shares and £757 in cash. For every 1 000 Dunhill shares held, shareholders would get 133 Rothmans shares, 749 Vendome shares and £443 in cash.

Richemont currently holds 62% of Rothmans and controls 53% of Cartier Monde SA through its 90% ownership of Luxco SA. Apart from its tobacco interests, Rothmans owns 58% of Dunhill and 47% of Cartier. After the restructuring, Richemont would own 61% of Rothmans and 70% of Vendome. (~~[illegible]~~)

Richemont said the new structure was more logical and enabled the managements of both groups to focus exclusively on their fields of expertise. There were also advantages in terms of future dividend payments.

By bringing Cartier and Dunhill under common ownership, there would be significant cost savings.

Richemont's results to end-March showed that turnover rose by 10,4% and earnings a unit increased by 4,7% to £35,98 (£34,36).

The total volume of cigarette sales by group companies worldwide was slightly lower than the previous year.

Luxury products increased net sales revenue by 9,8% to £1,02bn, but operating profit declined. Cartier Monde's sales revenue and operating profit were affected by reduced demand in the Far East.

Dunhill showed a 29,7% rise in net sales revenue due to acquisitions, foreign exchange effects and real sales growth. Operating profit was maintained but attributable profit declined.

ST Times (Buss) 2/16/93

Firms separate tobacco and luxury interests

ROTHMANS INTERNATIONAL, Dunhill Holdings and their controlling shareholder Compagnie Financiere Richemont AG agreed to separate tobacco operations from luxury goods, to allow each to find its own value.

The agreement creates two new companies — one still called Rothmans, now containing brands owned by all three firms, and another called Vendome Group, which will own the luxury goods such as Cartier, Piaget, Baume Mercier, Montblanc, Chloe and Karl Lagerfeld.

It will enable the separate managements of the two new companies to concentrate on their field of business expertise and should enhance shareholder value, says Rothmans' chairman Lord Swaythling.

(198)

RJR Nabisco in the US has also been planning a $1,6 billion float of shares in its food interests to separate them from tobacco operations, although two days ago it cancelled the plan citing a decline in value of comparable food companies.

Analysts said the Rothmans move, like that planned by RJR, is designed to unlock value of the non-tobacco interests — in this case the branded luxury goods — within the group.

(See)

This is because of the current low rating of tobacco stocks in general which is dragging down the value of all the businesses.

Analysts welcome Richemont shake-up

Star 25/6/93 (198)

LONDON — Restructuring the house of Richemont, the parent company for Rothmans cigarettes and some of Europe's leading luxury brand names, has long seemed simple in logic but devilish in detail

The reorganisation announced this week, designed to separate the group's tobacco and luxury goods businesses into two separately listed companies, will simplify Richemont's convoluted group structure.

It also appears to dodge the detail of tax considerations for Richemont's controlling South African shareholders and a tax liability on possibly the star in Richemont's firmament, Cartier

Analysts agree that the move is a welcome one

It should lead to operational and marketing benefits when sales of cigarettes and luxury goods are being hit respectively by price-cutting and recession.

There should be practical and cosmetic improvements, although underlying valuations were recognised so there may not be a lot more extra value created, according to Paul Beaufrere at James Capel.

Richemont was set up in 1988 as the Swiss-based vehicle for the overseas assets of the Rembrandt group, founded by Anton Rupert

His son Johann, who trained as a merchant banker, helped devise Richemont's share structure, which allows the Rupert family to retain control, despite holding only 10 percent of the shares.

Richemont's main holding was its stake in Rothmans, which the Rupert family had controlled since the early 1970s, and which in turn owned 57 percent of Dunhill Holdings.

25/6/93

Luxury goods

Throughout the 1980s the group made a number of luxury goods acquisitions, some of which were shared

As luxury goods sales rallied in the late 1980s, the company felt its structure was undervaluing assets because the main holding company for luxury goods, Luxco, was unquoted.

From 1989, Johann Rupert looked at setting up a quoted luxury goods company to own all of Cartier.

But the whole of Cartier had been bought for about £160 million ($240 million) in 1984, since when the company's estimated value has soared to more than £1 billion

Selling Rothmans' 47 percent stake in Cartier would therefore incur heavy capital gains tax.

Instead, under the planned reorganisation, tax should be avoided, according to Clive Richardson at Henderson Crosthwaite

"Richemont is not floating off any businesses, it's just shifting its shareholdings within different structures," he said

However, he pointed out that the structure still needed approval from the UK Inland Revenue

Rothmans, as with other tobacco companies, generates large amounts of cash and has a net pile of about £1 billion

Divorced from luxury goods, the new tobacco company will be free to concentrate on developing its own businesses

"Rothmans has enough problems of its own to have to worry about Dunhill's as well," one analyst said

After losing market share in its important market of Europe in the 1980s, Rothmans has concentrated on improving its margins through cost-cutting.

It has also devised a strategy, under management installed by Rupert, which simplified its operations into four geographical regions, rather than a host of semi-autonomous country managers.

But growth in cigarette volumes will come from new markets like China and Eastern Europe In Asia, Rothmans' main weakness is that its brands are Virginian rather than American

To compete with brands like Philip Morris's Marlboro, analysts argue that Rothmans faces an uphill and expensive struggle building brands

Rothmans' dividend policy, constrained by advance corporation tax problems in the past, may also be relaxed. The new tobacco and luxury goods companies will be structured as twinned UK and non-UK holding companies.

This is partly designed to shelter Richemont and other overseas shareholders from UK taxes, and is a similar structure to that employed by Reed International and Elsevier, the UK and Dutch publishing groups which merged on January 1.

That merger enabled money to be remitted to Dutch shareholders without incurring any advance corporation tax. — Financial Times.

Star 23/6/93

Richemont, Rothmans, Dunhill in shake-up talks

(198)

Richemont, Rothmans and Dunhill were involved in talks initiated by Richemont about a possible reorganisation of their assets to create two new quoted groups focused separately on tobacco and luxury goods, Rand Merchant Bank (RMB) said yesterday

Cartier Monde SA, currently controlled by Richemont and 47 percent owned by Rothmans, would become a wholly owned subsidiary of the luxury goods group

Swiss-based industrial holding company Richemont has proposed that the reorganisation be effected on merger terms

Shareholders in Rothmans and Dunhill would exchange their current interests for direct shareholdings in the new groups

Richemont would continue to hold the majority shareholding in both groups

As part of the proposed reorganisation, Rothmans and Dunhill would return to shareholders that element of their available cash resources considered surplus to the requirements of the new groups

RMB said "The reorganisation would produce two focused groups The separate managements would be able to respond more effectively to the major changes facing the tobacco and luxury goods industries by concentrating exclusively on their field of business expertise.

"Richemont believes that the creation of the new luxury goods group would provide the opportunity for significant marketing benefits and increased efficiency"

RMB said it was proposed the structure of the new groups would be in the form of twinned UK and non-UK holding companies

"This would allow UK and non-UK assets to be held in a way that mirrors the international nature of the two groups' businesses and should provide advantages to the companies and shareholders in respect of future dividend payments

"Shareholders would receive units representing twinned shares in the holding companies, which would be listed in London"

Richemont would continue to have a controlling interest in the tobacco businesses and there would be no change as a result of these proposals to the underlying ownership of the quoted tobacco subsidiaries nor any change to the proposed reorganisation of Rothmans' East Asian interests currently in progress — Sapa-Reuter

Richemont's share frozen

B Day 24/6/93

MARCIA KLEIN

RICHEMONT's share was suspended on the JSE yesterday following an announcement that it would reorganise the assets of Richemont, Rothmans International and Dunhill Holdings to separate its tobacco and luxury goods interests

The share was suspended at R43,15, after touching a high of R43,50 the previous day and a low of R32 in August last year

Richemont will continue to hold the majority shareholding in both groups

Analysts said it was likely Richemont would use Luxco, which held Cartier and Piaget, as a listing vehicle for luxury goods, although possibly under a different name

Richemont's luxury goods interests were held through Luxco and Dunhill, but Dunhill was held through tobacco subsidiary Rothmans Cartier was controlled by Richemont through Luxco, but was 47% held by Rothmans Richemont said Cartier would become a wholly owned subsidiary of the luxury goods group

Rothmans B and Dunhill revealed they would return their surplus cash to shareholders as part of the deal

Analysts said yesterday that SA shareholders would be locked into Richemont and not have the option of exchanging their interests.

COMPANIES

Richemont likely to improve

MARCIA KLEIN

RICHEMONT, which reported disappointing interim results to end-September, was expected to show a marked second half improvement when it reported for the full year to end-March. B/Day 21/6/93

Analysts said there were indications that the full year results, due to be reported this month, would reflect an improved performance from tobacco — held through Rothmans International — and benefits of a weaker pound.

At the interim stage, the Swiss-based vehicle of the Rupert/Hertzog families reported a marginal increase in earnings in sterling terms. This translated into a decline in rand terms

Recently Dunhill, which Richemont controls through Rothmans International, reported lower earnings. Although Dunhill's contribution to Richemont is not that significant, analysts said it was a good indicator of trading conditions in luxury goods.

In this light, the group's other luxury goods interests, particularly Cartier, would show flat or declining earnings. This would be partly offset by tight controls and a generally better second half in tobacco operations.

Like its joint venture partner M-Net, Richemont's share of European pay channel FilmNet's losses would amount to R27,6m. But analysts said this would not have a significant effect on Richemont's results.

On Friday the share eased 40c or 0,9% to R42,35, but remained close to the R43 high of last month.

A source said the recent high volumes in Richemont were not ahead of results but in anticipation of an announcement. (198)

The nature of the announcement is not known, but one analyst said it could relate to an acquisition by Dunhill.

Fraud leads to VAT losses

B/Day 21/6/93

TIM MARSLAND

GOVERNMENT is losing hundreds of millions of rands in VAT every year due to fake claims of exports of tobacco and other produce to neighbouring states (220)

The news comes hard on the heels of details of massive abuses of government's General Export Incentive Scheme (GEIS)

Industry sources said at the weekend syndicates in Johannesburg were purchasing tobacco products from wholesalers for export to countries in the Southern African Customs Union. They then forged the documentation required as proof of export and claimed the VAT back from the wholesaler, who by law had to refund it directly to the exporter before reclaiming it from Inland Revenue. The tobacco products were then resold on the local market cheaper than the wholesale price

Lost turnover to Johannesburg retailers in a Lesotho-linked scam was estimated at R600m a year and the lost VAT at about R200m (116) (198)

However, Transatlantic Tobacco Company executive chairman Jacques Kruger said the loss to the fiscus could be much bigger, because the same scam was being applied to other consumer products.

His company was investigating the Lesotho issue "to assist our franchised wholesalers". But there was no proof of "a definite syndicate"

Inland Revenue chief director Mike Du

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VAT

B/Day 21/6/93

From Page 1

Toit admitted there was a problem with VAT claims on goods being exported to Lesotho because there were not proper custom controls at that point. (220)

"We do not do our own VAT policing; we rely on customs to do this for us."

He said that while he was not aware of the current scheme, the department investigated all claims of VAT fraud. (116)

Inland Revenue was looking into several cases and would be making "examples" of those found guilty. (198)

A tobacco industry spokesman said manufacturers supplied directly to the wholesale trade (top clients received a 7% discount), who then sold the products to retailers Some retailers were being offered products at far bigger discounts than wholesalers received.

"The only conclusion that can possibly be drawn from the situation is that products are obtained from illegal channels."

He said the fraud had been made easier by a change to the VAT rules Previously, proof had to be provided that goods were delivered to a country in the Customs Union. Now the seller was not obliged to ensure delivery.

Meanwhile, Trade and Industry said it was aware of allegations of malpractices regarding GEIS as reported earlier by Business Day.

"Everything possible is being done to avoid paying out fraudulent claims under GEIS," a spokesman said.

REMBRANDT GROUP FM 18/6/93.

Relying on tobacco

(198)

Rembrandt Group's spartan preliminary accounts show two trends, apart from the dull 1% growth in EPS from normal business operations, which should concern management

Profits from managed operations are slowing considerably In the 1992 financial year net pre-tax income grew by 22,2%, this year it slowed to an increase of 5,5% And earnings from the diversified associates, disclosed as an equity adjustment showing the share of net income retained by associates, declined by 17,2%, compared to 16,3% in 1992

This means the managed operations, mainly Remgro's tobacco interests, continue to carry the group results with solid growth, though it's nothing like the spectacular rate seen in earlier years Associates, on the other hand, are having a hard time in the recession Many of their results have already been reported, including Gold Fields of SA, Metkor and Dorbyl, as well as Rainbow Chicken, held through subsidiary Huntcor

Yet executive chairman Johann Rupert is not too concerned He confirms Remgro's tobacco interests are bringing in the money, but says he does not expect fireworks this year "Consumer spending has been depressed, and we expect it to remain sluggish for about another year" Associate investments, Rupert says, are not all performing to expectations, but he does not see Remgro playing a more active role in these companies

Rupert denies recent talk that he is close to a deal with Philip Morris regarding its valuable Marlboro brand If made under

cont

SMOKE IN THEIR EYES

Year to March 31	1992	1993
Pre-tax income (Rbn)	1,17	1,24
After tax income (Rm)	747,7	759,3
Equity adjustment (Rm)	269,9	223,5
Net income from normal operations (Rm)	941,1	950,6
Earnings (c)		
— normal operations	180,3	182,1
— excluding associates' share	132,0	138,1
Dividends (c)	32,6	36,2
Special (c)	30	—

FM 18/6/93.

licence by Remgro, Marlboro could be a useful boost to earnings — if introduced as competition, it could seriously affect Remgro's market share (198)

"There is nothing at all new as regards Marlboro," Rupert says "We have an understanding with Philip Morris about Marlboro which goes back to 1981, and that remains in place" He won't elaborate, but presumably it means Philip Morris won't be made locally as competition

For a company now showing lacklustre growth in profits, dividends remain extremely generous Cover has slipped from 5,5 to 5 times, or on cash earnings from 4 to 3,8 times Yet Rupert says the payout is more than covered by dividend income from associates and the investment portfolio "It's always been policy to make sure shareholders get increases above inflation in bad times — when the economy improves we'll become more conservative again"

Remgro's share price of R26 and yield of 1,4% is much the same as a year ago It remains a sound long-term investment, but on present results there seems little incentive to buy now *Shaun Harris*

TOBACCO CROP FM 11/6/93 (198)

Going down in flames

Nine weeks into the tobacco auctions, Zimbabwe's farmers are contemplating the unthinkable They are asking whether the crop that sustained the economy for the past 40 years has been reduced to ashes

It may be that this is a temporary fit of depression brought on by unexpectedly low prices But many in the industry are considering their options go on growing tobacco on a reduced scale, diversify into maize, cotton, flowers, fruit or game ranching, or quit agriculture altogether

Optimists insist that it is far too early to throw in the towel Wait until the really quality leaf hits the floor later this month, they say Only then will it be possible to assess the situation properly

But many growers and merchants have reached the grim conclusion that the 1993 crop — up to a record 230m kg of prime quality tobacco — is going to sell for an average of less than US$1,25/kg, or a mere 40% of the record price of $3,25 achieved in the boom days of 1991 (*Business & Technology* April 23)

Worse than that, some experts are predicting that the country will have to carry over as much as 175m kg of leaf into the 1994 sales year Not only does this mean that next season's production will have to be cut drastically — perhaps by as much as 40% — but that banks will have to carry tobacco farmers over for another year or two, while simultaneously finding up to another Z$1bn (US$160m) to finance the leaf stockpile

With nearly a quarter of the 1993 crop sold, the auction floor price is averaging just US93c/kg — down more than 40% on the $1,62 average achieved for the low-quality, drought-stressed crop last year It's no longer just a crisis for the industry, but a full-blown setback for the economy as a whole Unless prices firm significantly over the next two months — and experts insist that they are not going to — prospects for economic recovery from the drought and recession will be chopped off at the knees

Flue-cured tobacco accounts for roughly one-third of total exports and about half the value of agricultural production in a normal year With the country's mining exports hit by recession — except gold, which is enjoying a boom — and with manufactured exports struggling in depressed global and regional markets, tobacco had been targeted for export expansion But that isn't going to happen Tobacco exports, which were worth

contd

over US$550m in 1991 and some $430m last year, are unlikely to reach $300m this year

More serious is the longer outlook World Bank projections show Zimbabwe's tobacco exports doubling by 2000, but growers and merchants insist that it's time to cut production and rethink strategy

When the Zimbabwe Tobacco Association holds its annual congress in Harare next week it will come in for sharp criticism for its failure to foresee the sudden, radical deterioration in the market This is unfair because the association warned early in the year that prices would be poor this year, though it certainly didn't expect them to be this bad

Looking ahead, the crop target is likely to be slashed to no more than 150m kg with some advocating a 130m kg crop in 1993/1994. Financing the stockpile is going to place an extra burden on banks and maintain high real interest rates for even longer than had been expected Ninety-day money now costs over 40%, while the inflation rate has fallen below 31% But with government borrowing huge amounts in the market to fund its budget deficit and with the tobacco stockpile likely to absorb another Z$1bn, rates are set to remain high, thereby deterring investment and retarding recovery.

Meanwhile, tobacco farmers are eyeing new crops Maize is certainly highly profitable this year, but unlikely to remain so next year given cost escalations and risks posed by newly introduced market forces Authorities will offer a floor price that is unlikely to be much above the current year's producer price of Z$900/t Maize marketing is being liberalised, a commodity exchange is being set up and growers will have to be satisfied with market prices rather than those set by bureaucrats ■

TOURING CHINA

Tony Koenderman is touring China. His *Advertising & Marketing* column will resume in two weeks.

Some of the lustre goes out of Remgro

Star 10/6/93

198

By Stephen Cranston

Despite a sharp fall in contributions from its food and timber subsidiary Huntcor and associates Gencor Beherend and Fralex and a loss from Dorbyl, the Rembrandt Group has increased earnings per share by a marginal one percent to 182,1c

The result was at the lower end of analysts' expectations, some of whom had forecast a six percent improvement

It is likely to put some pressure on the Remgro share price which, at R26, offers a thin 1,4 percent dividend yield and a P/E ratio of 14,3

Tobacco's growth was unable to offset the mediocre performance of other interests and the group's aura of invincibility has taken a battering.

But it remains financially strong. The dividend, declared in January, increased by 11 percent to 36,2c

After a 4,6 percent improvement in earnings in the first half, second-half earnings were down by 2,2 percent

But if retained income of associates is excluded, which is a paper rather than a cash profit, earnings were up by 4,6 percent to 138,1c per share — an increase in line with that of SA Breweries, the other giant in the consumer sector

Turnover

Remgro still does not disclose turnover, but pre-tax income was up 5,5 percent to R1,238 billion This included a 2,8 percent increase in dividend income to R227,6 million

But there was a sharp increase in the effective tax rate from 36,3 percent to 38,7 percent, which brought taxed income up 1,5 percent to R759,3 million

As dividends had already been declared, there was only a R1,8 million charge for the secondary tax on companies, taken above the line

With the adjustment in the tax rate, the deferred tax provision was reduced by R3,6 million

The share of net income retained by associates was down 17,2 percent to R223,5 million

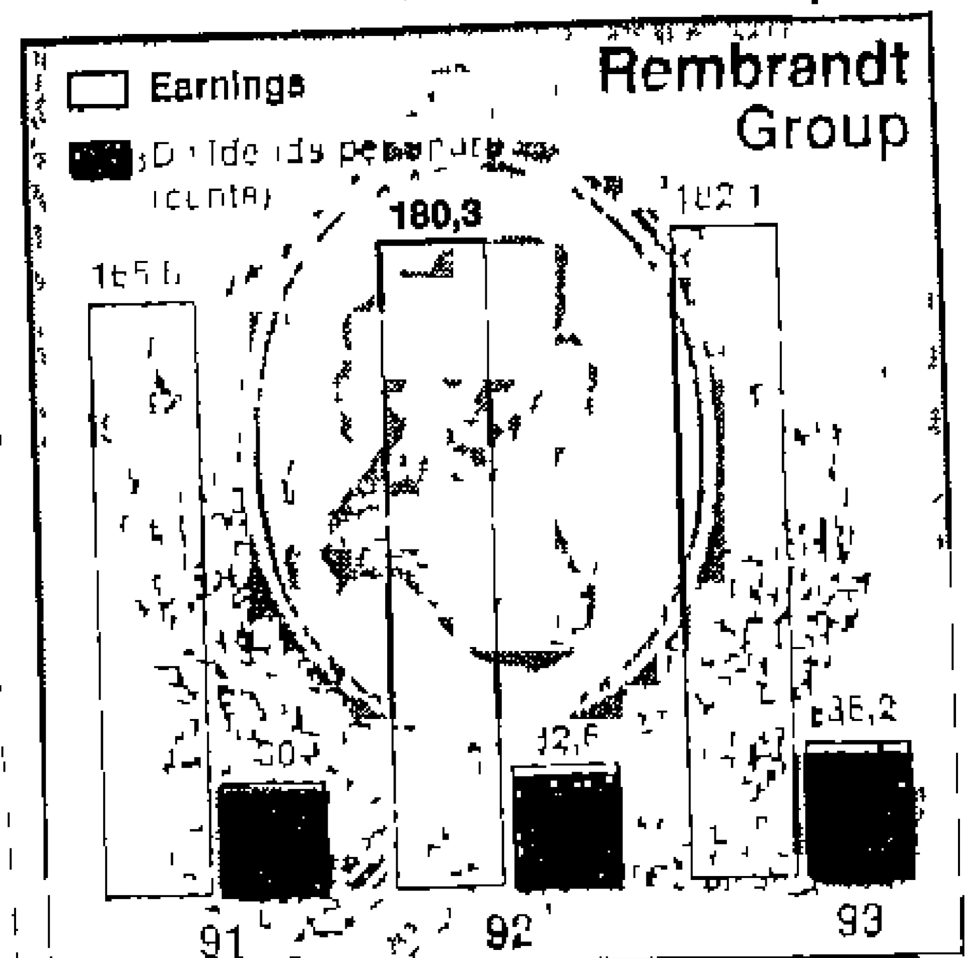
There were reduced contributions from the industrial and mining interests, only partly offset by improvements in financial services, which include Absa and Sage

Interest attributable to minorities, however, was down by more than half from R76,5 million to R32,2 million, mainly because of the 51 percent decline in Huntcor's earnings

Remgro's balance sheet remains exceptionally strong with its already negligible gearing falling from 3,1 percent to 2,6 percent

It has debts of R180,2 million and R6,9 billion in equity

There was a single payment of R460,7 million on October 1 to preference shareholders in Tegniese Mynbeleggings (TMB), a wholly owned subsidiary, who elected not to exercise their option to subscribe for ordinary TMB shares



Graphic RUBY-GAY MARTIN Source, REMBRANDT

Remgro's 1% rise less than expected

MARCIA KLEIN

REMBRANDT Group's (Remgro) pedestrian 1% rise in earnings to 182,1c (180,3c) a share in the year to end-March was below expectations, market sources said yesterday. B/Day 10/6/93

But analysts added that an 11% higher total dividend of 36,2c (32,6c) a share, declared in January, could indicate the tobacco, mining, industrial and financial services conglomerate was looking forward to a better financial 1994. (198)

They had forecast slightly higher earnings growth — of 3%-5% — for the year.

As the results of most of the listed interests were known, contribution from core tobacco interests must have been lower. They said trading conditions for consumer products were severely depressed, and there had been industrial action in some of Remgro's tobacco operations.

Tobacco probably showed little or no growth in volume, and bore the brunt of increased excise duties, they said. The group does not give turnover figures.

Net income before tax was up 6% at R1,24bn (R1,17bn), and net income after tax increased by 2% to R759,3m (R747,7m).

Secondary tax on companies was included in taxation while the R3,6m favourable effect of the reduction in the company tax rate on deferred liabilities was accounted for as an extraordinary item.

☐ To Page 2

Remgro

B/Day 10/6/93

☐ From Page 1

Directors said earnings, excluding the interest on retained income of associates consisting mainly of cash earnings, increased by 4,6% to 138,1c (132c) a share.

Rembrandt Controlling Investments, which holds 51,1% of Remgro, increased its earnings to 134,9c (133,5c) a share and declared a final dividend of 16,29c a share. (198)

Technical Investment Corporation (Tegkor), which has an effective 20,7% interest in Remgro through its holding in Rembrandt Controlling Investments, reported earnings of 118,42c (117,16c) a share. It declared a final dividend of 14,3c a share.

Technical and Industrial Investments, with an effective 17,4% interest in Remgro through its shareholding in Tegkor and Rembrandt Controlling Investments, reported earnings of 125,5c (124,2c) a share. Its final dividend was 15,16c a share.

☐ Sources believe Remgro could be set to introduce major cigarette brands Marlboro and Merit. One source said it had secured the local licence and distribution rights for the brands from Philip Morris.

Analysts said the move would be good for Remgro, particularly as it meant Philip Morris was not looking at entering the SA market in competition.

It was not clear if the products would come in at a premium or in line with most standard brands.

Lion Match finances 'are primed for 1994'

Buss Day 9/6/93 (198)

MARCIA KLEIN

DURBAN-based Lion Match's sound financial position would enable it to attain a satisfactory increase in earnings in financial 1994, chairman Laurie van der Watt said in his 1993 annual review

The SA Breweries-held group, with interests in matches, packaging, shaving, home and garden products and appliances, recently reported a 22% rise in attributable earnings to R15,4m to end-March on the back of significantly reduced financing costs

Van der Watt said the sound financial position was evident in closing gearing of 19% (31%), a six times interest cover, cash flow from operations of R22,4m and a reduction in net financing requirements

In light of the group's expectations for the year ahead, capex programmes worth R23,9m had been approved Van der Watt said most would be spent on the packaging division, where capacity was being increased in the gravure operations Much of this investment would be funded by cash flow retained from operations

The group would also focus on exports, tightened costs controls and continuing strict cash management

Commenting on divisional performances, Van der Watt said the lights division reported a marginal decline in turnover as domestic sales were affected by an influx of imported matches, but exports increased. Reduced manufacturing and distribution costs and increased efficiencies enabled the division to more or less maintain trading profit

Disposable lighter sales dropped in real terms, but volumes and market share should be restored in the current financial year The lights division was the major contributor to trading profit, bringing in 56%

The packaging division was the star performer, increasing turnover by 13% and trading profit by 26% The label, folding carton, merchanting and plastics operations did well

In the shaving, home and garden division, Wilkinson Lion Consumer Products increased market share, but margins showed a marginal decline due to the highly competitive market Home and garden sales volumes were low

The appliances division's results reflected losses arising from the disposal of redundant, obsolete and reworked stocks, but no further losses would arise from this division

Equity accounted Amalgamated Appliances had a difficult year, with a loss attributable to Lion of "a disappointing R5m" Van der Watt said the rationalisation programme was largely complete, and its performance was expected to improve substantially in the current year.

Richemont down as Dunhill slumps

198 MERVYN HARRIS

RICHEMONT shares were under a little pressure on the JSE yesterday after UK luxury goods group Dunhill reported a sudden and sharp fall in overseas trading, particularly in Japan and Germany.

Analysts said that although Dunhill contributed only 9% of Richemont's earnings last year, the poor global economic outlook could also hit earnings from Rothmans and Cartier, the other tobacco and luxury goods groups controlled by Richemont.

IAN HOBBS reports from London that Dunhill chairman Lord Douro warned shareholders that the trading collapse since March indicated that Dunhill could not maintain present operating profit levels this year unless the world's major economies improved. BDM 8/6/93

He reported a 7% drop in pre-tax profits in the 12 months to March at £70,7m, with operating profits slightly down from £55,7m to £55,5m but with the final dividend up from 4,95p to 5,25p with a total payout of 8,15p compared with 7,7p last year.

With consumer spending in Spain and Italy also sharply down and recoveries in Britain and the US at best hesitant, his warning to shareholders was unavoidable, Douro said.

Star 20/5/93

Rothmans in Russia good for long term

By Stephen Cranston

198

Richemont-controlled Rothmans International's expansion into the Russian and Chinese markets may cap its earnings growth in the short term, but should provide good long-term growth, says Pierre Greyvensteyn, an analyst at brokers Davis Borkum Hare

Rothmans recently announced a joint venture in Russia which follows on the formation of the Shandong-Rothmans Tobacco Company in China last year

It has also established a regional holding company to consolidate its interests in Rothmans Malaysia, Rothmans Singapore and its northeast Asian interests, with the corporate office in Hong Kong

In the Commonwealth of Independent States there is a shortfall between production and demand of almost 100 billion cigarettes.

The market for American blend cigarettes is growing by three to four percent a year

Rothmans has invested about R275 million in Nevo Tobacco and acquired a 75 percent shareholding in Rothmans Nevo

It will build a factory in St Petersburg, which will have an annual output of 10 billion, the equivalent of a quarter of the SA market

But multinationals are not expecting to make money for some years

They need to introduce modern management techniques, are faced with poor-quality leaf and a market in which there is insufficient disposable income for most consumers to afford premium cigarettes.

The Chinese market, on the other hand, has been more exposed to Chinese quality standards and 94 percent of its production is of British-type cigarettes, which is the mainstay of the Rothmans business

Rothmans King Size and the newly developed Horseman brand are well-suited to the Chinese market, which is mainly for Virginia tobacco, says Greyvensteyn

The door has been closed on further investment in China, which puts Rothmans and R J Reynolds, which also has a joint venture there, in a strong position.

Bright showing from Lion Match

198

MARCIA KLEIN

SIGNIFICANTLY reduced financing costs enabled SA Breweries subsidiary Lion Match to increase attributable earnings by 22% to R15,4m (R12,6m) in the year ended March.

The Durban-based group, which has interests in matches, packaging, shaving, home and garden products and appliances, achieved this increase despite the pressure of reduced consumer spending on both turnover and trading profit.

During the year there was a further decline in real private consumption expenditure, directors said. Turnover increased by 6% to R294,5m (R276,9m) on a comparable basis, allowing for the January 1992 transfer of the appliances division to the equity accounted Amalgamated Appliances. Amalgamated Appliances is a joint venture with Tedelex.

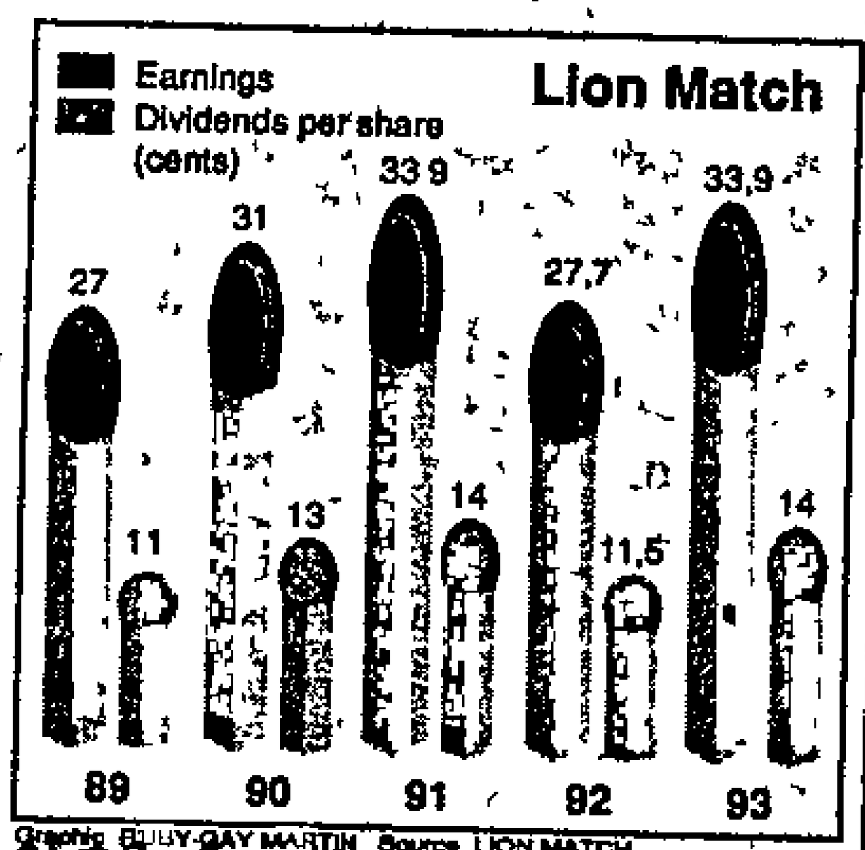
The 6% rise in trading profit to R41,8m (R39,3m) came from an improved contribution by packaging division Interpak.

Directors said cash flow from operations of R22,4m had helped to reduce borrowings as well as fund investment activities, and gearing was brought down to 19% from 31%.

The substantial reduction in financing costs to R6,9m (R12,6m) resulted in a 31% rise in pre-tax profit to R34,9m from R26,7m.

Profit after tax was 41% higher at R20,4m from R14,4m previously.

After the equity accounted loss of R5m (R1,9m) reported by Amalgamated Appliances, earnings rose 22% to 33,9c from 27,7c a share.



Graphic: BILLY-RAY MARTIN Source: LION MATCH

BIDAM 4/5/93

Directors said the rationalisation programme at Amalgamated Appliances was now largely complete, and this operation was expected to show a substantially improved performance in the coming year.

In line with Lion Match's policy of distributing about 40% of attributable earnings in dividends, a final dividend of 8,75c a share was declared. This brought the total dividend for the year to 14c (11,5c) a share.

Directors said the group was in a sound financial position and well placed to fund capex of about R23,9m in the current financial year.

Depressed economic conditions would continue to inhibit consumer demand. But Lion Match was financially sound and expected to achieve a satisfactory increase in earnings in financial 1994.

Yesterday the group's share rose 5c to close at 310c. It reached a high of 400c in May last year and a low of 170c in October.

Ozz to grow with Unihold deal

EDWARD WEST

THE acquisition of Unihold's wearparts businesses would significantly expand Ozz's local and international operations, Ozz said in a statement yesterday.

Unihold has sold its wearparts businesses — Boksburg Foundry, Unicast and Dimbaza — to Ozz for R35,5m payable by R23,7m in cash and the issue of 1,58-million shares at 750c each. The deal takes effect from June 1 1993. BIDAM 4/5/93.

Yesterday Ozz traded at a high of 800c, more than double its price a year ago, while Unihold was untraded at 75c, just off its 12-month low of 70c in March

Ozz said it planned to increase its manganese castings capacity for local and export markets. Main users of the castings were manufacturers making crushers for industries such as quarrying and road construction.

The acquisition would enhance Ozz's international distribution capabilities and in the 1994 financial year exports were expected to constitute in excess of 20% of total turnover, Ozz said.

Unihold disposed of its wearparts businesses to put it in a financially stronger position in order to develop remaining divisions, take advantage of opportunities and reduce its debt and interest burden.

Unihold's earnings a share would climb to 13,6c from 3,3c while gearing would have dropped to 65% from 106,5% had the deal been effective January 1 1992

Unicast incurred significant losses in the year to end-December 1992, dramatically reducing the profitability of the wearparts businesses Had the most recent results of the businesses been included in Ozz's earnings for the year to end-March 1992, earnings would have fallen to 44,9c from 56c.

However, Ozz management believed Unicast's losses were of a non-recurring nature, and the acquisition was expected to improve earnings in the next finacial year, to end-March 1994.

NBS expansion and restructuring pay off

BIDAM 4/5/93.

ANDY DUFFY

RADICAL restructuring in its core business and the spread into new sectors helped Natal Building Society (NBS) to a 19% rise in shareholders' earnings for the 12 months to March.

Earnings a share rose to 137,6c from 115,6c, with attributable profit ahead 24% at R91,3m. The dividend edged forward 15% to 46c, with cover moving from 2,9 to three times

MD John Gaffney said the figures reflected strong performances across the group But the company was particularly dependent on healthier margins from its major contributor NBS Bank.

The division, which provided about 50% of group profit, cut 20% of its 2 300-strong workforce, clipping 9% from operating costs.

Retrenchment costs are believed to have exceeded R10m, though the bank said cost savings would continue group earnings.

Total income for the year rose from R75,4m to R119,9m. "It is anticipated that the group should be able to achieve real growth in earnings a share in the year ahead," Gaffney said

"Despite the improvement, management services director Mark Farrer said NBS was adopting a "more stringent view" in lending.

Bad debt provisions rose 35% to R70,6m. Though NBS Bank had made clear

TOBACCO CROP

FM 23/4/93

Disappointing prices

198

Hopes of an agriculture-led recovery in Zimbabwe after the best rains in five years received a sharp setback last week when the flue-cured tobacco auctions opened on a bearish note

Before the sales started, growers who had

Cont

FM 23/4/93

198

produced what they regard as vintage tobacco under near-ideal climatic conditions, were talking of a crop selling at about US$2/kg

But when the sales opened, the price averaged $1,29, with more than half the sales rejected by growers who tore up their tickets, indicating that they refused to accept the auction price On day two, the price fell further, to $1,05, and then dipped below $1/kg on the third day The first three days saw only 1,5m kg of leaf sold out of a total crop forecast at about 210m kg

While merchants and growers say no conclusions can be drawn from the start of the sales, there is no doubt that the low prices are a blow to the industry and to the economy's recovery hopes In the boom year of 1991, growers earned $3,25/kg for their tobacco Now, even the optimists are saying that this year the average is unlikely to top $1,75/kg, barring some unexpected surge in buying interest That would be only 8% above last year's depressed prices for poor quality, drought-stressed leaf

Merchants blame the low prices on an excess global supply, especially of the filler grades that traditionally are traded in the first month of the season They expect prices to firm as higher-quality leaf comes on offer after next month, but no-one is expecting a return to the boom conditions of 1991 Cheap Chinese tobacco its undermining prices, along with a large, good-quality Brazilian crop

For their part, buyers are under pressure from the manufacturers following the outbreak of a price war in the US One of the world's top manufacturers, Philip Morris, which makes Marlboro cigarettes, last month announced a 20% price cut

High interest rates and currency fears are also a factor In the absence of firm orders from manufacturers overseas, merchants are reluctant to buy leaf on speculation at a time when the banks are charging more than 40% for 90-day money

Cheaper money is available offshore but merchants are equally reluctant to borrow hard currency US dollars to finance a speculative purchase at a time when further devaluation of the Zimbabwe dollar — and, therefore, higher foreign loan repayments — is a distinct possibility

The setback to the economy is substantial Last year, tobacco exports were estimated at Z$500m — about 35% of estimated total exports This year, the volume of leaf exports is expected to rise because of the larger crop (an estimated 210m kg vs 201m kg last year), but average realisations will fall

At this stage it seems unlikely that the increased volume will offset the lower prices, with the result that tobacco earnings will fall in a year in which mineral exports — especially ferrochrome and nickel — are forecast to decline, along with earnings from manufactured goods, mainly steel, textiles and clothing

All of this suggests that the hoped-for improvement in exports and a reduction in the balance-of-payments deficit from around US$1bn last year (20% of GDP) is unlikely to be much more than marginal This scenario could turn out to be too gloomy, since there is always the prospect of tobacco demand recovering once foreign manufacturers realise that Zimbabwe has a vintage crop on sale But the global slowdown being what it is, the likelihood is that buyers will use surplus supply worldwide to justify paying lower prices and will enjoy premium tobacco at a discount ■

Star 12/4/93

198

Utico makes best of conditions

By Stephen Cranston

Consumption expenditure in 1992 was negative in real terms for only the second time in the past five decades, says Utico chairman Fred Haslett

Writing in the annual report for the year to December, he says there are few indications of an upturn in the economy, which has been severely affected by mass action campaigns, lawlessness, factional violence and increasingly high unemployment

Group turnover, nonetheless increased by 10,8 percent and would have been marginally higher had the Fresh-Up juice division not been sold in October.

Operating income increased by 13,8 percent and this improvement in the operating margin was achieved through tight cost control and the curtailment of certain expenditure

The United Tobacco division posted an acceptable attributable earnings growth

Cigarette sales were subject to the contraction of consumer spending.

Sales of Benson & Hedges cigarettes, however, were good, and Benson & Hedges Special Mild remained the best-selling mild cigarette in South Africa

Cigarette manufacturing at Rustenberg was discontinued and production was consolidated at Industria

Tight cost control improved the operating margin and the return on net trading assets was enhanced. Sales of pipe tobacco improved

Attributable earnings from Willards Foods showed a satisfactory improvement The drought affected potato supply, price and quality

The market continues its trend away from potato chips to extruded corn-based products

Willards is represented here by Big Korn Bites, Cheasnaks and Cheese Curls

Substantial sums were invested in new extrusion technology to enable the launch of Hula Hoops, which proved an outstanding success

The investment in a new plant at Parow improved product quality, and sales penetration in the Western Cape has benefited accordingly.

The United Tobaco modernisation programme is continuing It will increase borrowings, but gearing is expected to remain low.

UTICO FM 20/8/93

No help from the market

The extent of the difficulties facing many companies in consumer markets was brought home to tobacco and snack group Utico in the six months to June After riding a wave of good fortune for much of the recession, latest results show it was hard pressed to lift turnover by 7%

Though the sale of the Fresh-Up fruit juice operation to Del Monte Foods in October marginally distorts figures, management concedes volumes were flat The pre-interest margin, helped by the elimination of this lower-margin operation, was slightly higher at 9% Utico has fared better than most companies heavily reliant on cash-strapped consumers — largely owing to improved asset management

(198)

With borrowings lower because of the deferral of capex and the proceeds from the Fresh-Up deal, interest charges were significantly lower, down 41% on year-ago levels to R1,3m Gearing improved from 42% to 27% But MD Bruce Edmunds says borrowings are forecast to increase during the second half as funds are invested in the extended United Tobacco modernisation programme

Of the R21,2m capex budgeted for this year, all but 8% has been contracted Edmunds says these costs will be financed by retained earnings and existing borrowing facilities but adds that gearing is forecast to remain comfortable

Despite the lower company tax rate, Utico's effective rate was almost unchanged at 45,5%. With the sale of its juice division, allowances relating to exports fell away Indications are that the rate will remain around this level for some time

Details of Utico's tobacco and snack sales divisions are not disclosed but analysts believe its tobacco operations were finding it difficult to maintain market share Quoting Ibis's competitive performance statistics, financial director Seville Chonin says the snack sales division has gained market share and attributes this to the successful launch of new snack-related products

Earnings growth during the previous financial year was restrained after drought had hampered trading for the Willards division Though these conditions have improved, the benefits are not yet visible in the figures Edmunds attributes this to the violence and unrest which, he says, impaired effective mass distribution and promotion of the group's products

(198)

Management, known for its conservative forecasts, believes performance will remain under pressure and the group will be hard put to maintain results in the second half

The share price has remained around R95 for several months but Utico is well managed and has good long-term volume growth prospects With tradeability a problem, as most shares are held by BAT Industries Plc, investors should maintain their exposure to the counter

Marylou Greig

FM 20/8/93

FEELING THE PINCH

Six months to	Jun 30 '92	Dec 31 '92	Jun 30 '93
Turnover (Rm)	270	303	289
Operating income (Rm)	24,0	40,0	25,9
Attributable (Rm)	11,8	20,0	13,4
Earnings (c)	195	329	221
Dividends (c)	117	197	132

Low demand for luxury goods hits Richemont

B/Day 16/8/93

MARCIA KLEIN

REPORTS of lower worldwide demand for luxury goods, and the effect this would have on certain Richemont investments saw the share ease 25c to R40 on Friday to continue the previous day's downward trend

Richemont and subsidiaries Rothmans International and Dunhill recently announced the reconstruction of the tobacco and luxury goods businesses into two new quoted groups, and the return of £525m surplus cash to Rothmans and Dunhill shareholders

The tobacco group would retain the name Rothmans, and the new luxury goods group, called Vendôme Group, would include Cartier and Dunhill

In a statement released on Friday, the three groups said the main objective of the amalgamation and reconstruction was to create "a more efficient and logical ownership and operational structure", which would enable the full potential of the underlying businesses to be realised The changes would also enable surplus cash to be released to shareholders

The three groups said trading since the March year-end had been affected by a worldwide decline in demand

Trading had been made difficult by the downturn in consumer spending in Japan, together with weakening economies in Germany, Italy and Spain, and only hesitant recoveries in the US and the UK

The volume of luxury goods sales in the first quarter had been well down on budget and on the same period in the previous year, Dunhill said, and "the effect had been a substantial fall in operating profit"

While it was too early to assess the outcome for the full year, "profitability is highly geared to the level of sales, which depends importantly on the pre-Christmas period, and to currency exchange rates", the company said

(198)

Despite the short-term outlook for Dunhill, the three groups said Vendôme would become one of the world's largest luxury groups

It would be well-positioned in the longer term to expand in its existing markets and exploit opportunities in emerging markets like China and Southeast Asia

The groups said recessionary conditions continued in Rothmans' markets, and the total volume of cigarette sales in many markets was static or in decline.

Rothmans' overall trading performance in the first quarter was similar to the previous year's but at this stage there was "no reason for the directors to think that, overall, the outcome for the current year would be other than satisfactory"

The new Rothmans group would benefit from cost-efficiency measures already initiated and its management would be able to focus on marketing tobacco products

There would also be a more logical corporate structure, reflecting the international nature of its businesses

The new Rothmans was profitable, and generated cash, and there were opportunities for growth through its broad portfolio of brands and its substantial international presence, which included 150 markets

Dealing in the new Rothmans and Vendôme units was expected to start on October 25, traders said.

Utico's earnings rise in tough consumer market

BiDay 13/8/93

MARCIA KLEIN

TOBACCO and snacks group Utico notched up a 13,3% rise in earnings a share to 221c (195c) in the six months ending June despite reduced consumer confidence.

Directors said adverse business conditions had continued to plague consumer markets, and violence and unrest had aggravated effective mass distribution and promotion of the group's products. These included Benson & Hedges, JPS and Winston cigarettes, and Willards snacks.

Against this background, Utico managed to increase turnover a "creditable" 7% to R289,1m (R270,2m), they said

There was a further small increase in the operating margin, with operating income growing 7,8% to R25,9m from R24m previously.

With borrowings lower, the interest bill declined 40,8% to R1,3m (R2,2m) Directors said this followed lower working capital requirements, the phasing of capital expenditure and the proceeds from last year's sale of the Fresh-Up juice division to Royal Foods

Pretax income rose 12,8% to R24,6m (R21,8m) and attributable earnings were 13,2% higher at R13,4m (R11,9m). (198)

In line with this increase, the interim dividend was 132c (117c) a share

Interest cover improved to 19,6 (10,8) times, and gearing fell to 26,9% from 42,2% Borrowings and interest paid would increase in the second half as funds were invested in the extended United Tobacco modernisation programme. But interest cover and gearing would remain at a comfortable level.

Directors said unless consumer confidence was "urgently restored and the prevailing climate of violence corrected", the economy was not likely to improve.

Utico's performance would remain "under severe pressure", they said, and it would "be hard put to maintain current levels".

Richemont unique on JSE

Star 11/8/93

Richemont's earnings per unit (in pounds)

BY STEPHEN CRANSTON

ALTHOUGH its yield is the thinnest on the market, Richemont is kept buoyant by its rand hedge status.

The recent results of the tobacco and luxury goods group Richemont have done little to support its demanding rating

The group reported a 4,7 percent increase in attributable earnings after a fairly modest 12 percent improvement in the previous year but still commands a 23,6 p.e ratio and a dividend yield of 0,7 percent

Its dividend yield is the thinnest on the market and its p e ratio is comparable with such high flyers as ABI, which regularly reports earnings growth of around 20 percent, and not far behind Adcock Ingram and Cadbury Schweppes, which consistently report increases of around 25 percent

Richemont, though, is a unique company as the only rand hedge on the JSE that is not primarily a mining share It also owns some important trademarks such as Rothmans, Alfred Dunhill, Cartier and during the 1980s benefited substantially from the boom in luxury goods and swing to conspicuous consumption

In the '90s, the luxury goods industry has been hit by a trend towards austerity Tobacco sales in Western countries have been at best static for more than 20 years but the future for tobacco companies has looked weaker since Philip Morris announced that it was going to reduce the price of Marlboro by 20 percent of the recommended price

This has led to a reassessment not just of tobacco shares but of the value of brands as a whole

Richemont is particularly well positioned for the Russian, Chinese and East Asian markets It formed a joint venture with Nevo Tobacco Company to build a new cigarette factory in St Petersburg which begins production in mid-1995

In China a new factory was opened last September as a joint venture with Shandong Tobacco Company

(198)

Prospects in East Asia should improve since a regional holding company was formed between Rothmans International and its two publicly quoted associates in Malaysia and Singapore The new company will lead the group's drive into such growing markets as Japan, Taiwan and South Korea.

Expansion into new markets has been equally aggressive from Richemont's luxury goods businesses. Cartier opened boutiques in Japan and the US, Sulka expanded in the US and Dunhill opened in Geneva.

Richemont staves off recession

CHARLOTTE MATHEWS

THE worst effects of the worldwide recession will still be felt in many economies but tobacco and luxury goods holding company Richemont Securities AG has taken steps to limit the impact on its business, MD Johann Rupert says in the company's 1993 annual report BDay 9/8/93

The signs of recovery which were beginning to appear in the US and certain other economies were "no more than faint indications of improvement in an otherwise dire economic situation," he said

The anti-inflationary stance that had been adopted by some central banks would also delay recovery in Europe, he added

Richemont's consolidated net sales revenue in the year to March 31 1993 was £3,43bn (£3,11bn), on which attributable profit before extraordinary items climbed to £206,6m (£197,3m)

Richemont's tobacco interests are held through Rothmans International In the past year it concluded an agreement with Russian tobacco company Nevo Tobacco to form A O Rothmans-Nevo

The new company, in which Rothmans will invest around £55m, will build a cigarette factory in St Petersburg Russia offered one of the largest consumer markets in the world, Rupert said (198)

A new regional holding company had been proposed for east Asia by merging Rothmans International and its associated companies in Malaysia and Singapore.

Rothmans International would have a 50% interest in the company. Rupert said the merger was likely to be finalised by the end of 1993 if regulatory and shareholder approval is obtained.

Richemont's luxury goods interests are held through Luxco SA and Rothmans International It also has an indirect interest in North American mail order retailer Hanover Direct and during the past year extended its interest in television company FilmNet SA.

The empire strikes back...

BRUCE CAMERON 198
Business Staff ARG 1/8/93

REMBRANDT supremo Mr Johan Rupert has firmly defended his family's control of the international empire

At a news conference after the Rembrandt annual meeting, Mr Rupert also took a crack at sharemarket analysts, McGregor's *Who Owns Whom*, on which many of the criticisms of the control exercised on the South African economy by a few companies are based

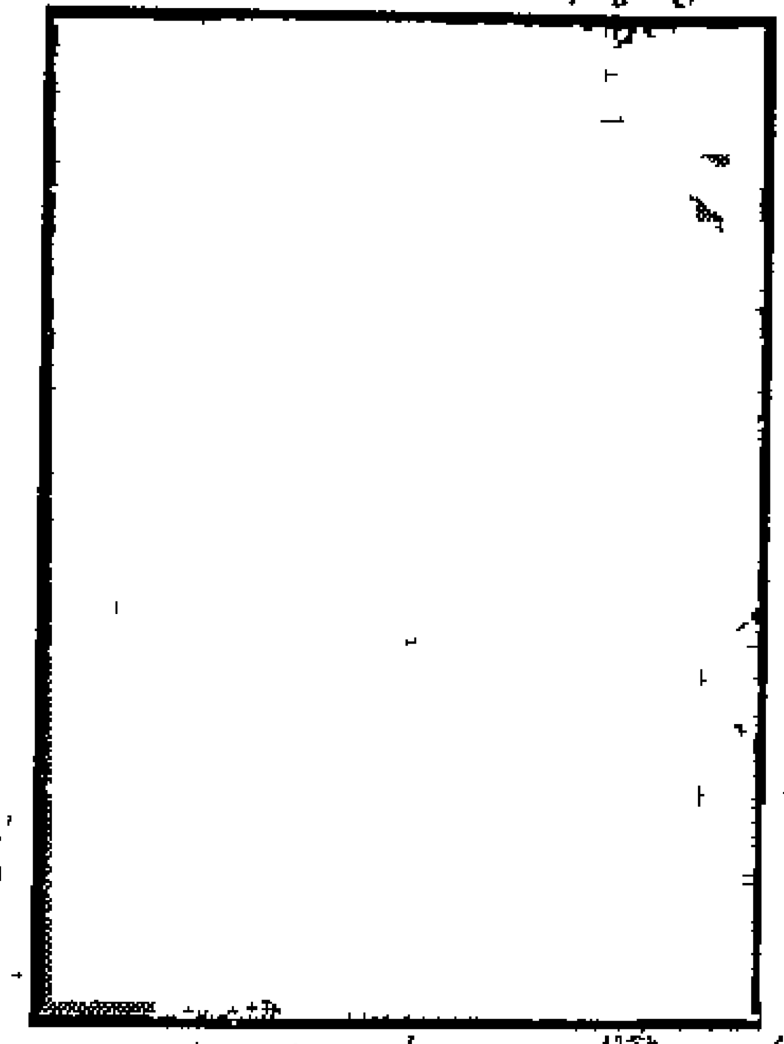
He rejected claims that the Rembrandt structure created a monopoly and accused McGregor's of "double counting" figures to arrive at its conclusions

"We are not monopolistic in any industry."

The Rembrandt annual meeting was held jointly with the founding Rembrandt empire company, Technical Investment Corporation, of which Mr Rupert's father and company founder, Dr Anton Rupert, is chairman.

Dr Rupert rejected suggestions that the pyramid structure of the company, which gives the Rupert family a controlling interest, should be broken up

He said the structure had given the company the ability to beat off any suggestions of a takeover.



SUPREMO: Rembrandt's Mr Johan Rupert

Mr Rupert supported his father, saying the situation was incomparable with Gencor, where the holding company was worth less than its constituent parts

Dr Rupert also rejected criticisms of companies investing overseas, saying that in 1953 Rembrandt had taken R1,5 million out of the country but brought back R1,5 billion The company's overseas investments were now making more money than the South African part of the business

Rembrandt says no to unbundling

CT 29/7/93

By ARI JACOBSON

REMBRANDT's executive chairman Johannn Rupert came out strongly against the unbundling of the group's control structure at its AGM in Stellenbosch yesterday.

Speaking [illegible] discount [illegible] was being passed up [illegible] un-bundle.

Rupert [illegible] the reason for the share [illegible] the holding company [illegible] offered [illegible] because the Rembrandt company [illegible]

He added [illegible] Rembrandt [illegible] all [illegible] would have [illegible]

[illegible] way [illegible] entrepreneur to [illegible]

Rupert [illegible] that most [illegible] and that "human capital [illegible] tended to [illegible] follow each other."

He added [illegible] international capital was totally [illegible]" and would always be looking for "a safe and hospitable home".

"It seems as if a political solution in South Africa would be far easier to [illegible] nomic solution."

As for Richemont, he said that the group would continue to remain focused and that diversification [illegible] not part of the gameplan.

He said that strategic positioning of its existing tobacco and luxury businesses was more [illegible] philosophy.

[illegible] opening of factories in China, Russia and Poland.

Richemont is [illegible] constructing its group into separate tobacco and luxury goods businesses.

Rupert was quick to mention that the Richemont group, which went overseas in 1953, had faired far better then its predecessor locally.

He mentioned that R1,5m taken out at that time to build the offshore company, had grown so that R1,5bn has been repatriated in dividends to South Africa over time.

The old Rembrandt group, represented as the Technical Investment Corporation, celebrated its 50th financial year at the AGM yesterday.

Demonstrating the value attached to the "old company's" shares, chairman of this company Anton Rupert pointed out that 1c a share purchase at that time, was now worth some R65 a share.

The Rembrandt group reported a 1% increase in earnings for the year to March at 182,1c (180,3c) a share.

● Richemont reversed earlier falls on the JSE yesterday, adding 75c to R40,50 in spite of a firmer financial rand.

REMBRANDT GROUP

FM 23/7/93

198

Smoke, smoke, smoke that cigarette

Activities: *Diversified industrial group*
Control: *Rupert and Hertzog families*
Chairman: *J P Rupert, MD H Visser*
Capital structure: *522m ords Market capitalisation R13,7bn*
Share market: *Price 2 625c Yields 1,4% on dividend, 6,9% on earnings, p e ratio, 14,4, cover, 5 12-month high, 2 800c, low, 2 275c Trading volume last quarter, 5,3m shares*

Year to March 31	'90	'91	'92	'93
ST debt (Rm)	311	113	33	36
LT debt (Rm)	136	89	172	145
Debt equity ratio	0,9	0,5	n/a	n/a
Return on equity (%)	19,0	18,7	17,1	13,4
Net income (Rm)	801	841	1 174	1 238
Earnings (c)	144	166	180	182
Dividends (c)	25	30	32,6†	32,6
Tangible NAV (c)	757	885	1 055	1 361

† Excludes special dividend of 30c

Increasing reliance on the trademark group (largely tobacco) is clear in Rembrandt Group (Remgro)'s first results under new chairman Johann Rupert So is what could be the start of a more active role by head office in subsidiaries and investments — nothing too dramatic or heavy-handed at this stage, but certainly a keener interest

Rupert has chosen to concentrate on offshore interests first, restructuring Richemont's Rothmans interests into two separate groups (*Fox* July 2) He is still abroad, putting finishing touches on the reshuffle, but will be back next week

Speaking from Spain, Rupert says there is little chance of a costly cigarette brand war in SA similar to the one that forced big US producers to cut prices as generic products took up to 30% of the market The US price war, it seems, came about largely because market leaders continued to increase prices while volumes dropped, despite receiving a margin about seven times greater (up to US$43 per 1 000 cigarettes) than elsewhere

Smaller producers began to produce generic or no-name brands and grew market share until big producers had to make generic products as well — and the price war began

Rupert says excise duties are a big part of the SA price This fixed cost prevents unrealistic increases "We also get a far smaller margin Selling prices have generally been held a few points below inflation "

Rembrandt's Rupert *little chance of a cigarette war here*

The past three years show the importance of the trademark group, particularly as recession has deepened and other interests have succumbed In 1991, its R345m comprised 39,9% of total net income — 1993's R453m is 47,6%

Of course, that trend could reverse when the economy picks up, but with other interests, particularly in industry, underperforming, it remains the mainstay

A 3,4 percentage point dip (to 9,6%) in industrial interests' contribution is not unexpected, after published results from companies like Huntcor, Metkor and Dorbyl

Biggest disappointment is Huntcor associate Rainbow Chicken Of its R78,4m attributable loss (*Companies* July 9), Remgro's share is R15,6m Rupert hopes that's a special situation, which shouldn't recur

He notes that while Huntcor has kept out of active management, in March, Hunt Leuchars & Hepburn CE Neil Morris stepped in One result was new Rainbow MD Rick Griffiths (*People* July 16) Rupert says this was Huntcor's decision, but one suspects the unseen hand of Remgro

Remgro is sitting on cash of R516m, covering total borrowings nearly three times Clearly something must be done with this Rupert notes that lower interest rates knocked earnings from cash resources, but says there are no specific plans However, Remgro is well placed for acquisitions

On unbundling, Rupert points out that head office costs, including salaries, fell 3% in nominal terms last year — " without redundancies I believe our head office structure offers value to shareholders," he says

A new development is the entry into cellular telephony, through an investment of about R100m and 15% partnership interest in Vodacom Group, Telkom's partner Rupert is annoyed that cellular telephones are becoming a "political football" in SA "I returned from London four years ago and said I wanted us to bring cellular telephones to SA We must have cellular phones if we are to be a modern country "

It may take some time before that investment starts to pay More immediately, mining interests should provide a useful boost to earnings if the gold price holds

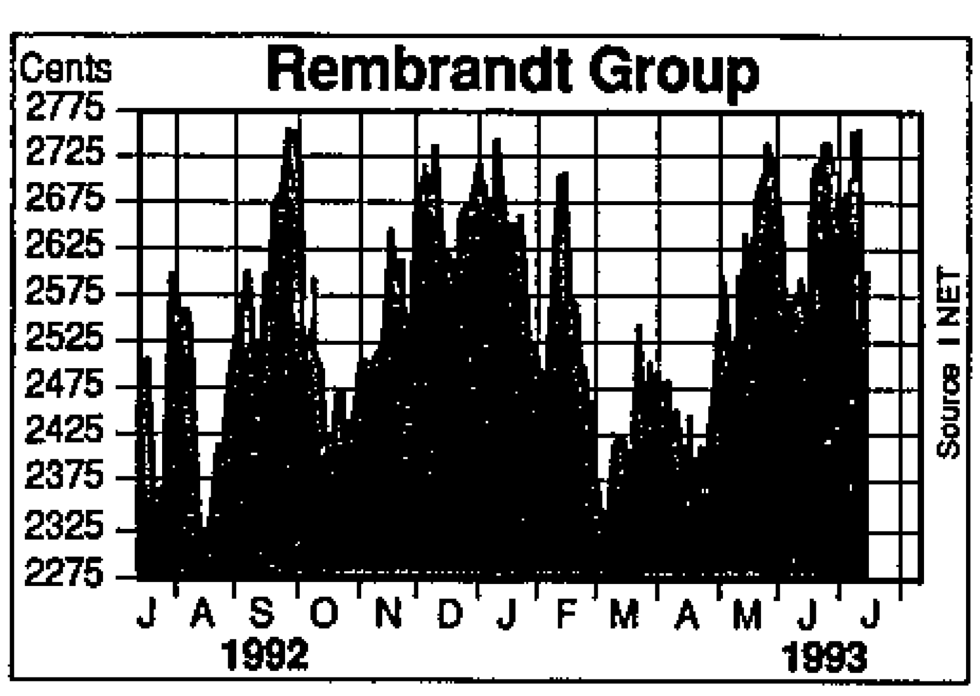
Rupert adds that the new corporate tax should benefit earnings, as Remgro's dividend income, on which STC credits can be received, will exceed dividends it pays out

The share price has drifted on largely unchanged ratings It remains a sound long-term investment Recent developments and a more active interest in underlying investments could add spice

Shaun Harris

REMGRO'S INCOME SOURCES

	Capital employed Rm		Net income Rm	
	1992	1993	1992	1993
Trade mark group	836,7	886,8	412,0	452,7
Mining interests	2 586,4	3 170,9	227,1	239,2
Industrial interests	1 014,4	1 004,4	122,3	91,2
Financial services	487,9	533,4	70,3	78,3
Corporate and other	581,8	758,9	109,4	89,2
Total	5 507,2	6 354,4	941,1	950,6



Star 15/7/93

Shares lag restructured Richemont's asset value

(198)

By Stephen Cranston

The restructuring of Richemont's tobacco and luxury goods operations should unlock the underlying value of its assets and lead to a more efficient corporate structure, says Pierre Greyensteyn, an analyst at stockbrokers Davis Borkum Hare

Greyvensteyn says this will lead to a more market-related valuation of Richemont's net asset value, which is estimated at R47,24, compared with the present share price of around R40

He predicts that Rothmans should return earnings growth at the attributable level of 17 percent and Vendome eight percent in financial 1994 and then 14 percent and 13 percent in 1995

Richemont's earnings will improve by eight percent in 1994 but the effects of the corporate restructuring will enable it to report a 27 percent improvement expressed in sterling in 1995 and the depreciation of the rand against sterling will add a further 13,7 percent to the increase in rand earnings

The restructuring will provide focus, as all the tobacco trademarks will be owned by Rothmans.

The luxury goods operations will become more vertically integrated in purchasing and distribution which will result in cost savings

Richemont will receive £300 million of the surplus cash paid out by Rothmans and Dunhill, which with £480 million in existing cash and improved dividend flow will be able to eliminate corporate debt, particularly the £613 million in 10,25 percent loan notes in favour of Philip Morris

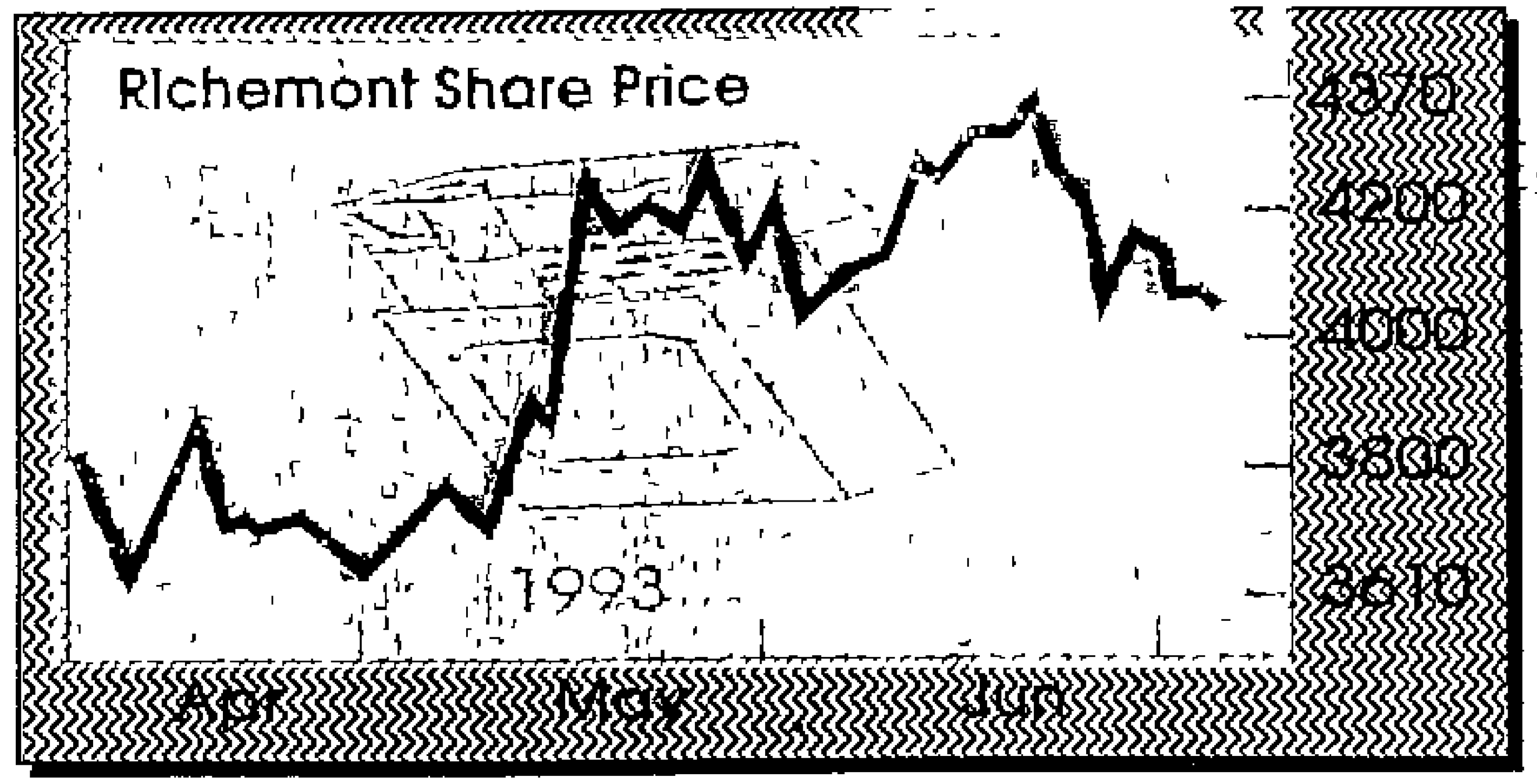
The new subsidiaries intend to reduce their dividend covers, giving Richemont a dividend flow in the first year of about £75 million, which should allow Richemont to pursue other investment opportunities in the medium to longer term without the burden of incurring corporate debt.

The operating margins of the tobacco companies will be helped by the falling tobacco leaf prices, which in Zimbabwe fell by 41 percent after two weeks of sales.

The market has been flooded by a huge crop from Brazil and aggressive increases in the export of low-cost filter styles by China and India.

Many leaf-growing countries are pushing surplus stocks from past seasons at bargain rates and many cigarette manufacturers have large unexpected stocks on hand

Vendome faces a depressed European economy for the rest of this year About 51 percent of Cartier sales and 30 percent of Dunhill's sales are derived from Europe



REMBRANDT GROUP

FM 23/7/93

198

Smoke, smoke, smoke that cigarette

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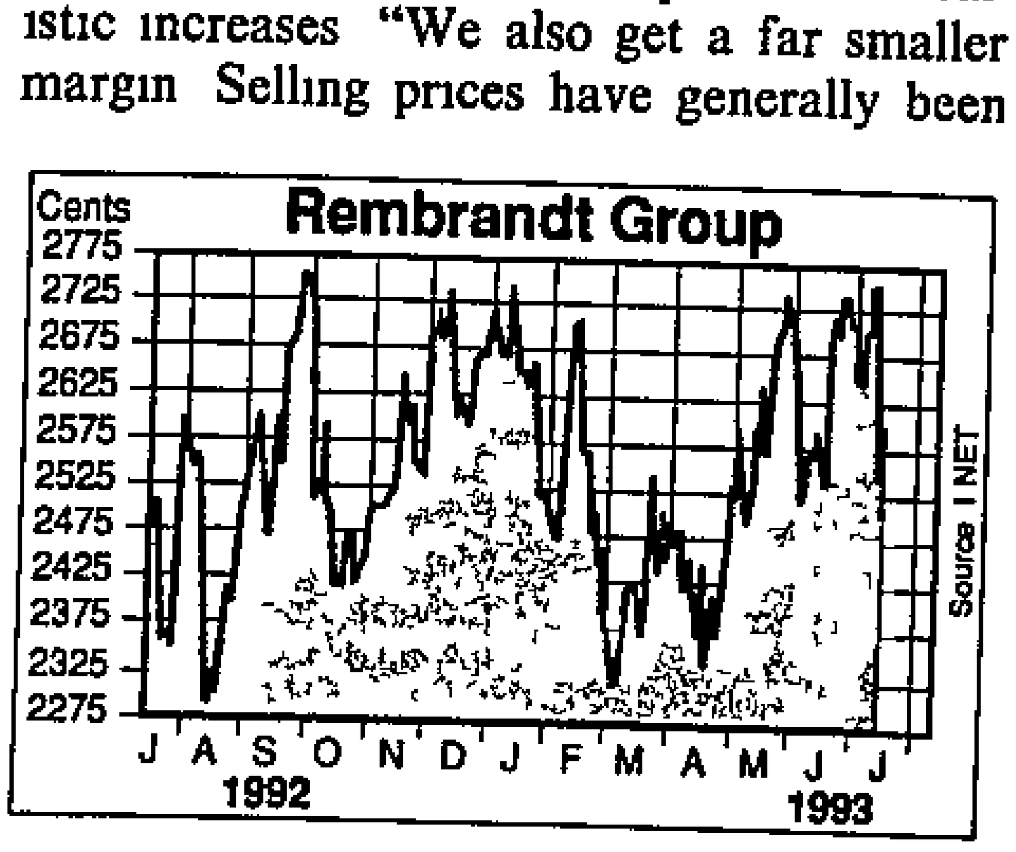


CHARTER FM 23/7/93

Unique rand hedge

"What" is meant, asks an intrigued observer, "by the word chutzpah?" Trying to find an answer to a query loaded with complex-

RICHEMONT

Changing the formula

FM 20/8/93

198

Activities: *Principally in tobacco and luxury goods*
Control: *Rupert and Hertzog families*
Chairman: *N Senn, MD J Rupert*
Capital structure: *5,2m "A" bearer shares and 5,2m "B" registered shares, 522m depositary receipts are listed Market capitalisation R21,14bn*
Share market: *Price 4 050c Yields 0,7% on dividend, 4,2% on earnings, p e ratio, 23,7, cover, 6,1 12-month high, 4 750c, low, 3 200c Trading volume last quarter, 8,1m DR*

Year to March 31	'90	'91	'92	'93
ST debt (£m)	141	297	468	528
LT debt (£m)	822	763	778	778
Debt equity ratio	n/a	n/a	n/a	n/a
Turnover (£m)	2 862	2 988	3 108	3 431
Pre-int profit (£m)	531	556	584	603
Pre-int margin (%)	17,9	18,3	18 7	17,5
Earnings (£/unit)	254,7	308,7	34 36†	35,98†
Dividends (£/unit)	41 25	50,63	5,63†	5,89†

† Restated to reflect 10-for-1 subdivision of units

Richemont's Rupert *more flexibility for investments*

Short-term earnings performance doesn't seem to have a great effect on this share, one of the most highly rated on the JSE A year ago, when Richemont reported an 11,3% increase in earnings, the share traded on a yield of 0,8% and p e ratio of 22,1 At the time MD Johann Rupert warned there was little reason for optimism, and that the Western world's economic recovery, central to Richemont's tobacco and luxury goods brands, was at best fragile

His prediction was borne out in financial 1993's performance, with earnings growth slowing to 4,7% at year-end Yet the share's rating has firmed marginally One reason must be Richemont's attraction as a pure rand hedge In troubled times like these, investors find comfort in a group with high-quality assets that are all offshore

Yet earnings growth has slowed markedly during the world recession (EPS grew 38% in 1989 and 1990) While this has been largely beyond Richemont's control, it was perhaps time to re-examine the corporate structure, as suggested by the *FM* (*Fox* December 4), which noted at the interim stage that old formulae may be becoming outdated

That has been done, as shown by Richemont's proposal to restructure the tobacco and luxury goods interests into two separate quoted groups Unless there are successful objections from shareholders at next month's meeting, the new structure should be in place before the end of the year

That, to an extent, makes the 1993 annual report less relevant, though the document does provide an indication of what can be expected for the remainder of the 1994 financial year

The overriding message in Richemont's 1993 performance is that luxury goods have finally succumbed to recession, with net sales — largely from Cartier Monde and Dunhill Holdings — growing 9,8% (mainly due to acquisitions) but operating profit slipping by £11,8m, or 5,5%

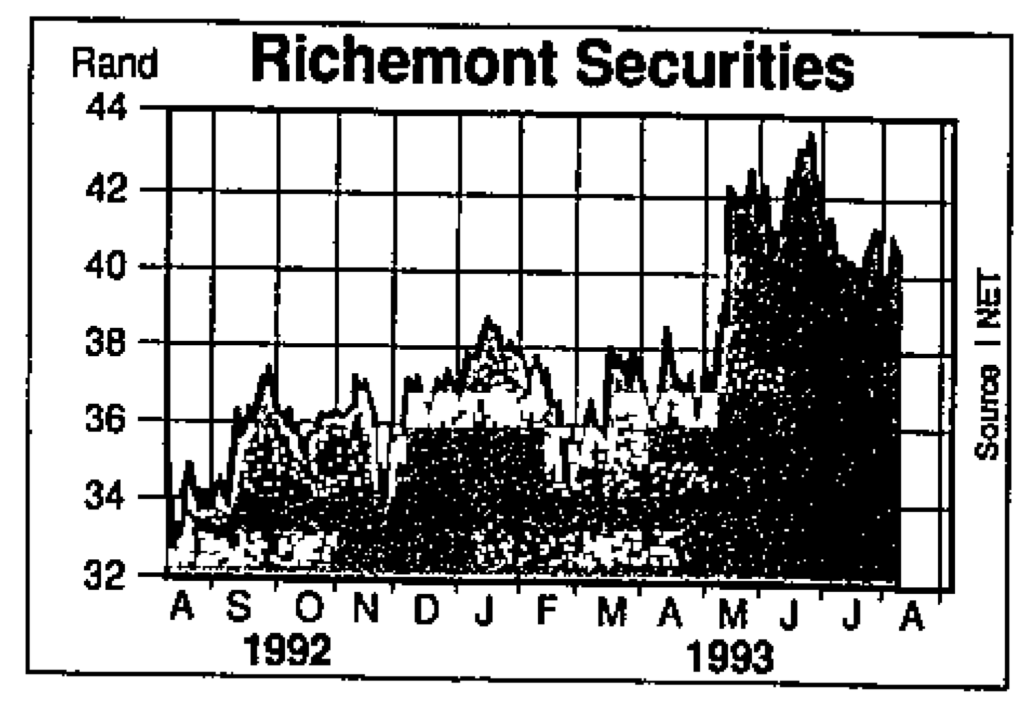
As one analyst notes, the yuppies' spending boom is dead and they are now battling to pay their bonds Rupert says this was particularly true for Dunhill products, affected by reduced demand from Japan and Japanese tourists

Dunhill's attributable profit declined by 6,7%, while Cartier Monde put in a more stable performance, with profit up 1,8%

That left the tobacco interests to carry the day, with turnover up 10,6% (though about £100m was due to exchange rate movements), and operating profit increasing 12,6% on a margin which firmed to 17,1% from 16,8%

Yet Rupert notes the total volume of cigarette sales by the group fell, with volumes contracting in various markets, including Germany, Indonesia, Malaysia, the Philippines, and the former Yugoslavia This was partly offset by increased volumes in eastern Europe and the UK

With demand from industrialised Western nations softening, Richemont has made a timeous tactical move into developing markets Rothmans International will spend about £55m in a joint venture with Nevo Tobacco, a privately owned Russian company, to build a cigarette factory in St Petersburg, to start production in mid-1995



It also plans to merge its Rothmans interests in east Asia with associated companies, to form a Hong Kong-based regional holding company — Rothmans of Pall Mall — aimed at growing markets in China, Japan, Taiwan, South Korea and Hong Kong

Rupert says one benefit of the restructuring, apart from the more logical corporate arrangement of having existing tobacco businesses and trademarks owned by Dunhill and Richemont together with Rothmans, will be to allow management to concentrate on long-term opportunities in the tobacco business Asia will become an increasingly important market

Similar benefits should flow from bringing the Luxco and Dunhill luxury goods under the unified ownership of Vendome

In both cases, the new structure will allow greater flexibility for investments and acquisitions Rupert says prospects for a recovery in world economies remain bleak — it would not be surprising, therefore, to see Riche-

SMOKE BREAK

Richemont's profit sources
£m

	Net sales 1992	Net sales 1993	Operating profit 1992	Operating profit 1993
Tobacco	2 180	2 411	367,0	413,4
Luxury products	928	1 019	214,6	202,8
Other activities	—	—	(11,6)	(8,1)
Company and subsidiary undertakings	3 108	3 431	570,0	608,1
Share of associated undertakings			27,5	10,0
Goodwill amortisation			(13,3)	(14,8)
Operating profit			584,2	603,3

FM 20/8/93

FEELING THE PINCH

Six months to	Jun 30 '92	Dec 31 '92	Jun 30 '93
Turnover (Rm)	270	303	289
Operating income (Rm)	24,0	40,0	25,9
Attributable (Rm)	11,8	20,0	13,4
Earnings (c)	195	329	221
Dividends (c)	117	197	132

proved, the benefits are not yet visible in the figures Edmunds attributes this to the violence and unrest which, he says, impaired effective mass distribution and promotion of the group's products

Management, known for its conservative forecasts, believes performance will remain under pressure and the group will be hard put to maintain results in the second half

The share price has remained around R95 for several months but Utico is well managed and has good long-term volume growth prospects With tradeability a problem, as most shares are held by BAT Industries Plc, investors should maintain their exposure to the counter *Marylou Greig*

TRANSATLANTIC

Pointing to an upturn

Sweating out the property recession has been a gruelling business for TransAtlantic Holdings (TAH), Liberty Life's British real estate life insurance vehicle Now the 1993 interim points to an upturn which may mark the end of two years of decline in asset values and earnings

Pre-interest profit of £51,4m was nearly 12% up But with less interest on developments being capitalised, the charge on borrowings is up (by 18% to £21,1m), leaving pre-tax earnings just 7,5% better at £30,2m

TAH capitalised only £1,2m of interest in the period, against £5,2m last year — continuing the decline from nearly £36m which was rolled up in 1991 It makes the accounts more transparent but means TAH is coming up from behind by comparison with previous accounting policy

The biggest change derives from the scrip alternative to cash dividends — unchanged at 6p a share Most of TAH's big shareholders (Liberty 54,1%, Union des Assurances de Paris 17,1%, and Gencor 8,3%) have opted for paper, with owners of 75% taking it up

The effect has been to sharply reduce advance corporation tax — paid on dividends on behalf of shareholders Tax is down by 36% and, with minorities slashed by the acquisition of 100% of property subsidiary Capital & Counties before last year's stock exchange listing, the net attributable profit leaps by 52% to £23,2m

Excluding the higher convertible preference dividend of £5,6m (from £3,7m), following the consolidation, equity earnings are also 52% better at £17,6m EPS, diluted by increased capital, are up 18% at a shade under 6p — almost enough to cover the £17,9m needed to pay the dividend and a good sight better than the £4,4m shortfall last year

TAH does not split pre-tax earnings between those from Sun Life (50 50 owned with UAP) and Capital & Counties But chairman Donald Gordon says property investment income was 9% better at £36m, even after £3m in bad debts and voids caused by depressed retail sales — though these do release space available for "better traders"

Sun Life is basking in a surge in new business, with regular premiums 36% up at £57,2m and single premiums clearing the £1bn mark with a jump of 23% — and the 1992 half-year included £330m from the now-curtailed sales of unitised with-profits bonds Sun Life's net attributable contribution was £12,5m against £11m

On the expansion front, Gordon's statement notes the 3% strategic stake acquired in June in Sun Alliance by Sun Life (22,7m shares) and TAH (1,4m shares) but adds the group is investigating other opportunities with the focus on North America

Property is the big recovery sector of the London market — helped by George Soros's highly publicised entry — and its index is up 58% from this year's low Life insurers have moved more sedately with a 16% lift The mix of TAH's assets and the results were enough to sustain its share price at 321p, just under the year's high and 34% above the low point *John Cavill*

UNITRANS

Still in top gear

In an environment noted for competitiveness, aggravated by ongoing violence and deregulation in the industry, road haulier Unitrans did well to increase attributable earnings by 15% to R37,2m

A poor sugar crop in Natal and the loss of some timber business to the railways, which offered much lower rates, restricted growth in turnover to an annualised 9% (the 1992 reporting period was 15 months)

Despite strict cost controls, high initial operating costs of new contracts squeezed the pre-interest margin from 16,1% to 15,6% Operating income rose 5% to R55,7m CE Eduardo Garcia says an increase in depreciation arising from acceleration of vehicle replacements also hit margins

Fleet age now averages 40 months Expenditure on new vehicles pushed the interest bill up 47% to R11,2m but at the same time helped halve the tax charge to R6,3m

Total capex of R119m, less than the budgeted R156m but still well up on the annual R80m of the past two years, increased borrowings to R57,2m Gearing at 26% remains below the industry average

Garcia believes the new contracts secured towards year-end will contribute significantly to future profits Greyhound Coach Lines, acquired earlier this year will give profits a further boost, though it's relatively minor

Garcia is reluctant to make forecasts, given the industry's sensitivity to unrest But the earnings record speaks for itself The share price has advanced 5% to R10,25 since the release of the figures Though this cyclical stock has yet to show benefits of an economic upturn, it offers good value *Marylou Greig*

FINELY TUNED

Year to June 30	1992*	1993
Turnover (Rm)	327	357
Operating income (Rm)	53,0	55,7
Attributable (Rm)	32,4	37,2
Earnings (c)	88,9	99,5
Dividends (c)	25,6	30,0

* 15 months to June 30, annualised

CONTROL INSTRUMENTS

Rapid rerating

In November, Control Instruments (CI)'s share price was languishing at 20c The *FM* commented (*Companies* November 20) that, with interests in automotive electronics & instrumentation and industrial and access control instruments, it might be an interesting turnaround story

Since then the share has hit 77c, results for the year to June explain why Turnover is up by 11,5%, thanks to the introduction of new products and higher export volumes

But a bigger boost came from a widening in margins from 5,1% to 7%, which pushed operating profit up by 53%

Interest-bearing debt, continuing a downward trend, fell about 12% to R12m strong bank balances and cash of R8,5m leave net debt to equity at only 13,4% This brought a marked improvement in interest cover, now a respectable three times, compared to just over once the previous year, and trimmed interest payable by 45%, to R1,7m

With some R29m assessed losses, CI paid only R52 000 tax MD Richard Friedman doesn't expect to pay tax for about two years

Combined effect of all these factors is that EPS soared from 0,4c to 5,0c A dividend of 2c a share is the first since 1989

Effective from July 1, wholly owned subsidiary Electromatic bought after-market vehicle security specialist Shurlok for R4,46m, payable by the issue of 4m CI shares and R1,46m cash The acquisition is not expected to have any significant impact on CI's gearing Friedman estimates that Shurlok will add another 1,5c-2c to EPS

On a p e of 15,4 and premium of nearly 100% to NAV (before the Shurlok deal), the share is highly rated, maybe even overrated, given CI's dependence on the motor sector But Friedman is confident that growing export orders and the new products launched three to six months ago will fuel continuing growth He may be right, though it's unlikely that the recent rate of appreciation in the share price can be sustained *Louise Randell*

Fin 20/8/93 (198)

mont taking advantage of the world recession by embarking on acquisitions With cash and equivalent of £1,7bn, £317m more than in 1992, it has the resources to do so

But 1994 is unlikely to be a particularly good year for Richemont Rupert says overall trading performance in the first quarter is comparable to the same period last year Earnings growth will be satisfactory if it can match 1993's level

Analysts are looking to 1995 as the year when results should improve significantly By then the restructuring should be complete, with related benefits starting If this coincides with an upturn in world markets, investors can expect strong growth

That enhances long-term potential for the share, despite its ridiculously thin yield Trading about R7 off its annual high, any further price weakness should offer a buying opportunity It's little wonder most institutions are heavily into Richemont shares

Shaun Harris

1993

Media move holds back Richemont

CT 2/12/93 (198)

By ARI JACOBSON

RICHEMONT's move into the media world way back in 1991 is continuing to hinder the group and this helps to account for the modest 2% increase in attributable earnings to £97m for the six months to September

However buoyed by steady sales of luxury and tobacco goods and backed by favourable exchange rates in certain markets, operating profits rose about 10% to £294m

In addition profitability was helped by improved investment income, up 10,5% at £16,9m and a lower effective tax rate

Richemont bought FilmNet, the largest North European pay televison channel but subscriber numbers have continued to disappoint at a time when losses were being incurred, as the group developed SA FilmNet.

MD Johann Rupert mentioned yesterday that "significant investment had been made in broadening the appeal of the station with among others sports and children's programmes".

He warned that "further investment is still required and additional costs are likely to be incurred"

However MD Johann Rupert pointed out yesterday that subscriber numbers are "now starting to grow satisfactorily".

Surprisingly the tail-end of the recession had little impact on the luxury goods division, now contained in the Vendome company, which increased operating profits by about 24% to £90m.

Tobacco profits as reflected in Rothmans international increased by 12,3% to £1,2bn, with a decline in sales volumes balanced by the favourable exchange rate.

These two divisions, representing the now simplified Richemont structure, helped lift the group's operating profit before tax by about 10% to £311m.

Rupert added that "the restructuring of Richemont's tobacco and luxury goods interests has eliminated complex cross-shareholdings and the consequence will be improved transparency and comparability of financial information in the group"

Rupert forecasted that trading activities would be "difficult" in the next six months but still alluded to "satisfactory" financial results for the full-year to March.

MBSA-Mitsubishi truck deal

JOHANNESBURG.— Mercedes Benz of SA (MBSA) has concluded a co-operation agreement with Mitsubishi of Japan to produce a one-ton pickup truck at the East London plant.

CT 2/12/93

The MBSA chairman, Mr Christoph Kopke, said production of the Mitsubishi L200 would begin in August next year and increase current production volumes by about a third.

JSE actuaries indices

	INDEX	PREV	MOVE	EARN YLD	DIV YLD
OVERALL	4209	4164	45	6,5	2,9
MINING PROD	3261	3212	49	6,3	3,4
COAL	2732	2732	0	15 8	4,9
DIAMONDS	15409	15093	316	7,5	3,0
ALL GOLD	1858	1826	32	5,5	3,5
RAND&OTHERS	617	612	5	9 2	4,7
EVANDER	1536	1536	0	7,1	3,8
KLERKSDORP	5248	5141	107	4,0	3,7
O F S	1110	1099	11	4,3	4,5
WEST WITS	2684	2627	57	6,3	2 8
METALS&MIN	1897	1892	5	4,8	3,3
COPPER	618	629	11-	10,8	11,6
MANGANESE	3200	3200	0	4,1	2,2
PLATINUM	4494	4464	30	4,1	2,5
TIN	16	16	0	0,0	0 0
OTHER METALS	25	25	0	11,7	4,5
MINING FIN	5061	5013	48	7,0	2,9
MIN HOUSES	5335	5267	68	8,0	2,8
MIN HOLDING	1479	1477	2	4,7	3,0
FIN&INDUST	5702	5649	53	6,4	2,6
FINANCIAL	3687	3671	16	6,8	3,5
BANKS&OTHER	3811	3772	39	9,2	3,0
INSURANCE	3953	3960	7-	3,5	2,5
INV TRUSTS	2127	2127	0	2,3	1,6
PROPERTY	345	344	1	11,1	8,7
PROP TRUST	135	135	0	12,3	12,3
PROP LOAN ST	340	340	0	8,8	13,3
INDUSTRIAL	4903	4851	52	6,2	2,4
IND HOLDING	4871	4804	67	6 1	1,9
BEV,HOTL LES	11894	11566	328	4,2	2,1
BUILD&CONSTR	3708	3582	126	6,9	3,5
CHEM & OIL	1166	1151	15	11,1	4,5
CLTH,FOOT TX	516	507	9	15,7	5,8
ELECTRON,ETC	1386	1377	9	7,5	2,8
ENGINEERING	1526	1524	2	6,5	3,3
FOOD	6812	6804	8	5,0	1,8
FURN&HSEHOLD	567	557	10	9,8	3,4
MOTOR	2935	2935	0	13,2	2,9
PAPER&PACK	5334	5366	32-	6,6	2 7
PHARM&MEDICL	1910	1910	0	4 6	1,9
PRINT&PUBLSH	10921	10921	0	7,3	2,2
STEEL&ALLIED	812	799	13	7,8	2 9
STORES	6071	6068	3	4 4	2,2
TRANSPORT	36825	37285	460	6,9	1,6

Media interest costs trim Richemont bottom lime

ARGT 1/12/93 (178)

MARC HASENFUSS
Business Staff

THE Rupert family controlled Richemont Group, which recently reshaped its tobacco and luxury goods operation into two seperate companies, reported a slender 2 percent increase in attributable profit to £97 million in the half year to end September

Operating profit, buoyed by growth in the principal tobacco and luxury goods business, was up a solid 10 percent at £294 million

However, Richemont's bottom line growth was restricted by the continued cost of developing its media interests.

Tobacco showed a 9 percent dip in sales volume in the interim period, with markedly reduced sales reported from France, the UK and Yogulslavia

But net sales revenue — thanks to exchange rate movements — increased 12 percent to £1,2 billion

Tobacco contributed £213 million to Richemont's operating profits, nearly 9 percent more than the previous interim period

Directors said the largest gains were made by Rothmans of Pall Mall (Malaysia) and Rothmans Holdings of Australia. Both companies are 58 percent held by Richemont

Luxury arm Vendome showed an exchange rate driven 15 percent jump in sales revenue of £524 million in the review period with jewellery and writing instruments recording increased sales and watches and leather products showing a moderate fall off.

Improved trading margins pushed Vendome's gain at operating level to 24 percent at £90 million

Directors said operating losses in non-core activities increased by £8 million to £8,7 million mainly on the back of higher losses incurrd by FilmNet SA and a reduced profit contribution from the NAR group.

Looking ahead, directors predicted a satisfactory performance in the year to end March

Difficult trading conditions were, however, expected to continue in Vendome's major markets in the second half of the year

They also warned that significant additional costs were likely to be incurred in developing Richemont's media interests

Richemont's restructuring, announced in June this year, was completed at the end of October Richemont's interests are as follows

- A 60,6 percent interest in Rothmans International
- A 69,7 percent interest in Vendome Luxury Group.
- A 50 percent interest in Network Holdings SA (which holds 90 percent of FilmNet — Richemont's principal media investment)
- A 50 percent interest in NAR Group (NAR holds US-based direct retailer Hanover Direct)

Subdued forecast for Richemont

BDay 25/11/93

MARCIA KLEIN

SUBDUED demand for luxury goods would dampen Richemont Securities AG's performance in the six months to September, analysts said yesterday.

Most said it was difficult to forecast earnings, as it was unclear how the Rupert and Hertzog families' offshore tobacco and luxury goods group would report

Richemont is to restructure its tobacco and luxury goods interests into two new quoted groups — Rothmans and Vendome Rothmans would hold the tobacco interests and luxury goods group Vendome would include Cartier and Dunhill It was unclear if the two entities would report interim results separately.

(198)

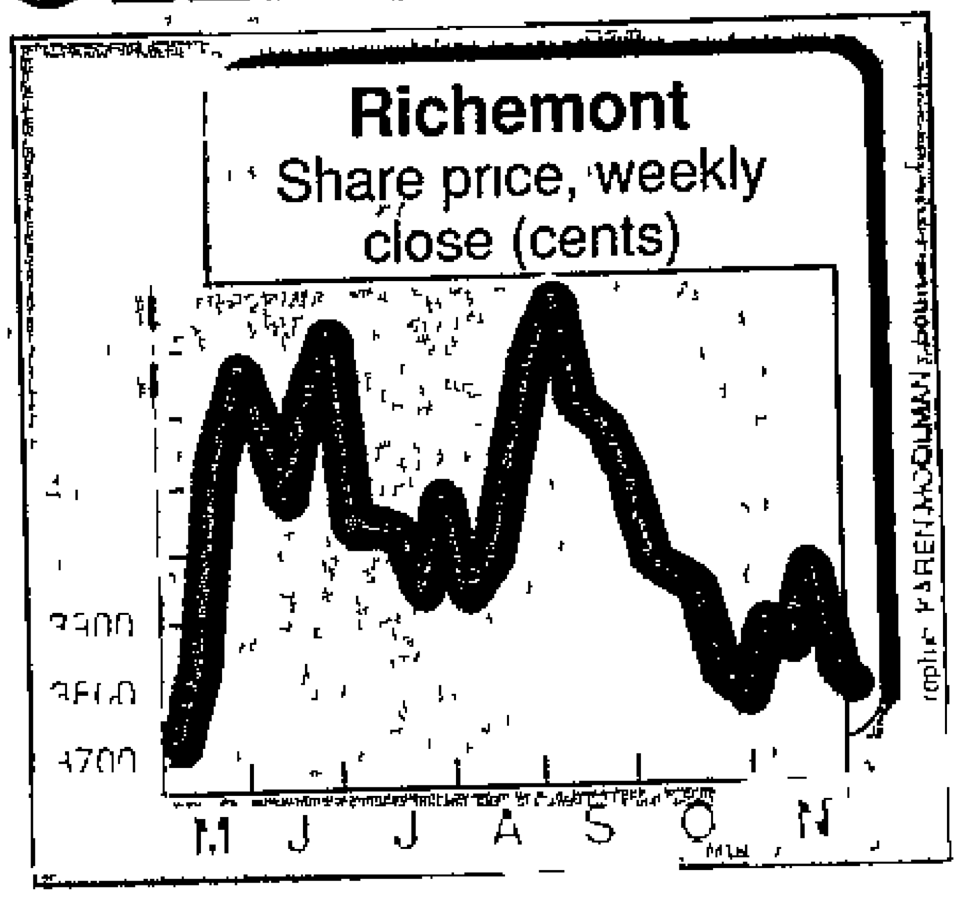
Analysts said they expected "no fireworks" when Richemont's results were published next month

Richemont recently warned shareholders that first quarter trading had been hit by a worldwide decline in demand

Dunhill directors said the volume of luxury goods sales was well down on budget by the end of the first quarter, leading to a substantial fall in operating profit The volume of cigarette sales in many markets was static or falling.

Analysts expected a growth in tobacco profits at the interim stage, but at a low level Luxury goods interests, however, would suffer from lower demand, particularly in the Far East and in Europe

The results could also be affected by the European pay channel FilmNet, in which Richemont holds just under 50%. M-Net, which owns about a third of FilmNet, reported recently that FilmNet's losses had grown to R22,9m (R9,3m) in the six months to September.



Analysts said Richemont's results would be off a low base from the previous year, when the group reported a marginal earnings rise In the year to March, attributable profit rose 4,7% to £206,6m.

They added that Richemont should benefit in the second half from a small improvement in luxury goods sales.

But one analyst said that about half of the group's sales were in Europe and there was no sign that European economies were picking up He did not expect turnover to show an increase in the next six months, but said earnings should benefit from tax savings and other efficiencies arising from the group's reorganisation

Analysts said that for the full year, much depended on pre-Christmas sales and on the effect of currency exchange rates

Lion Match controls offset lower demand

B/Day 2/11/93

MARCIA KLEIN

LION Match has increased its earnings 17% to 15,49c (13,25c) a share in the six months to end-September as strict controls and a lower tax rate offset a real decline in private consumption expenditure.

The SA Breweries subsidiary, with interests in matches, packaging, and shaving, home and garden products and appliances, also announced the R205m sale of its packaging division Interpak and Interpak Properties to Consol In the year to end-March, packaging contributed 54% of the group's turnover and 40% of trading profit

Lion's turnover rose 7% to R148m (R138,5m). Trading profit increased 13% to R19,2m (R17,1m) Directors said this reflected the benefits of improved productivity and reduced overheads

Lower finance costs of R3,2m (R3,7m) and a lower corporate tax rate saw profit after tax rise 33% to R9,2m (R6,4m)

But equity accounted joint venture company Amalgamated Appliances showed a loss on the back of a substantial decline in electrical appliance sales and further rationalisation costs [redacted] (198)

Lion's R2,2m share of the losses saw attributable earnings rise 17% to R7m (R6m) A 17% higher interim dividend of 6,15c (5,25c) a share was declared, in line with the board's policy of distributing 40% of earnings as dividends.

Cash flow from operations increased to R18,9m (R10,2m) on the back of successful management of working capital

Lion invested R22,6m in a significant capex programme in the packaging division. As a result, net financing requirements rose R7,7m, but gearing was reduced marginally.

No divisional comments were given However, in its announcement of the disposal of Interpak, Lion said that in the six-month period, Interpak contributed 53% of turnover and 37% of trading profit

The company said consumer demand was not likely to show any real improvement in the rest of the financial year, and earnings excluding Interpak would approximate those of the previous year

But earnings, including the benefits from the sale of Interpak, would show a satisfactory increase

Today's announcement showed that the sale price represented 452c a share. An analyst said it made sense that the share was moving upwards Yesterday it added to previous gains, closing 25c up at 525c

Anti-smoking body slams tobacco industry

B/Day 13/10/93

KATHRYN STRACHAN

THE National Council Against Smoking yesterday attacked the tobacco industry for "sowing doubt in the public mind about the deadliness of its product".

To "restore the balance", the tobacco industry last week held a seminar for journalists at an eastern Transvaal resort

Council spokesman Yussuf Saloojee said while the seminars were addressed by what the organisers described as "international experts" and "respected academics" quite independent from the tobacco industry, several of the speakers had strong links with the tobacco industry

He said one of the "independent" international experts was Dr Sharon Boyce, head of smoking issues with the British American Tobacco Corporation in the UK

Saloojee said the industry maintained a "deliberate silence" on the hazards of smoking, and still refused to debate the issue in public

The only time the industry broke its silence was to issue statements that claimed evidence was controversial

According to its own document, said Saloojee, the industry had embarked on a "brilliantly-conceived and executed strategy of creating doubts about the health charge without actually denying it"

"Claims that the health case against tobacco is not proven therefore ring reassuringly in smokers' ears and help them repress their health concerns and continue smoking"

MARCIA KLEIN reports that United Tobacco Company public affairs manager Hilary Thomson said the National Council Against Smoking had indicated that the tobacco industry had no right to put forward its viewpoint, and that only the anti-smoking lobby was entitled to comment on the debate (85) (198)

"We are just trying to ensure that people have access to all information rather than the information supplied by one side"

Commenting on Saloojee's statement that the media provided "an unchallenged platform for the periodic attempts of the tobacco industry to sow doubt in the public mind", Thomson said the industry usually had no opportunity to reply to claims made by the anti-smoking lobby

Thomson said the industry did not refuse to debate the issue in public

News in brief

Warning on tobacco

THE Department of National Health is drawing up regulations for health warnings on tobacco products and advertising and will publish them for comment soon Sowetan 7/9/93

A department spokesman said the Tobacco Products Control Bill, passed by Parliament in June, was signed into law on July 2 Clauses of the measure would come into operation on dates to be fixed by President F W de Klerk Regulations envisaged in the Act for controlling smoking in public places would be determined in consultation with the Council for the Co-ordination of Local Government Affairs (198)

Rembrandt issues 'birthday' dividends

BDay

LINDA ENSOR

CAPE TOWN — The Rembrandt Group and its three pyramid holding companies have declared substantial special ordinary dividends, together with their interim dividends for the six months to end-September which have risen by 20%. 27/8/93

Rembrandt's dividend increase was higher than expected by some analysts, who had forecast an annual dividend growth of 10,5% and an annual earnings a share growth of about 16% or 17%

A Rembrandt Group spokesman said the reason for the special dividends was to enable ultimate holding company, Technical & Industrial Investments to declare a special dividend for its 50th anniversary.

The group declared its dividends ahead of its profit announcement, but analysts said dividend cover was so high it was impossible to forecast earnings on the basis of the dividends declared (198)

Rembrandt declared a special dividend of 14,52c in addition to its interim dividend which was 20% higher at 17,04c (14,20c)

Confession was made voluntarily

Sowetan 25/3/93.

By Tsale Makam

■ Judge says ANC man ~~is an~~ unreliable witness:

A MEMBER of the African National Congress charged with murder and robbery had made his confession "freely and voluntarily", a Rand Supreme Court judge ruled yesterday

Mr Solomon Mnqanqeni (33), who, together with Mr Phuthumile Makhosi (28) and Mr Daniel Motaung (35), faces charges of murder and robbery involving more than R500 000, had earlier told the court he had made the statement under duress

Mnqanqeni had told the court a captain Koekemoer had forced him to admit to the crimes, gave him names of senior ANC members, including Mr Chris Hani, to incriminate and names of places they were supposed to have robbed

Mr Justice R Strydom also said although most of the policemen were unreliable witnesses, Mnqanqeni was equally unreliable and had lied to the court.

"Why would police force him to say things which had no bearing on the case?" the judge asked.

The judge and his two assessors also found that in his statement Mnqanqeni had confessed to a robbery police did not know he was involved in.

The State also found that the case on the Southdale Standard Bank robbery was already closed but was reopened after Mnqanqeni's confession to the robbery

(Proceeding)

Bill provokes huge row

Sowetan 25/3/93.

By Musa Zondi

■ Tobacco bosses complain about new law:

THE Tobacco Institute of Southern Africa has complained about the proposed legislation on cigarette control

The Tobacco Products Control Bill was tabled in Parliament this week and seeks to control the sale of tobacco to youths under the age of 16 The bill will also reduce advertising of these products and demands a much more detailed health risk warning.

Tisa said the youth was not the target of marketing of tobacco products anyway It said it "has no objections to the proposed ban on sales of cigarettes to people under the age of 16. However, strict compliance by the trade may be difficult for purely technical reasons and the Institute therefore suggests that consultation be entered into with retail business sector on the matter"

On advertising, the institute says it is a misconception to believe advertising plays a determining role in influencing people to take up smoking

The ANC leadership would have to accept collective responsibility for abuses if these were found to be "systematic, persistent and large scale".

"It is a matter of pride for me that been drafted in 1955, the ANC had not anticipated it would be banned and forced into exile

ANC soldiers who disobeyed orders to engage Unita in Angola and those Sethloke, who is still a member of the ANC, had testified that he was beaten on the soles of his feet with a baton during interrogation and hung from a pole while in handcuffs

Police probe ANC leader after 'kill the boer' chant

BDay 18/6/93

LLOYD COUTTS

POLICE said yesterday they were "investigating "utterances" by ANC Youth League president Peter Mokaba at Wednesday's June 16 rally in Orlando, Soweto

Mokaba led a crowd of youths in chanting "kill the boer, kill the farmer" at the rally, despite a formal decision last week by the ANC's national executive committee to abandon the slogan.

A brief statement from police headquarters in Pretoria said other "utterances" by Mokaba at Wits University were also being investigated.

"The dockets will be forwarded to the attorney-general on completion.

The docket regarding Mokaba's utterances in Cape Town (in April) was referred back to the SAP by the attorney-general of the Cape so that more evidence regarding the incident can be obtained," the statement said.

ANC spokesman Ronnie Mamoepa confirmed that the ANC regarded the chant as "inappropriate", but said a decision to this effect had only been taken last week, and league representatives were probably still in the process of conveying the message

Mokaba led the chanting of the slogan as ANC president Nelson Mandela entered Orlando stadium.

Mandela told the rally while he understood the anger of the youth it was important not to frighten communities whose contributions were needed in the peace process.

Home Affairs Minister Danie Schutte said in Cape Town yesterday the slogan was incompatible with the termination of the ANC's armed struggle, and questioned the organisation's commitment to a peaceful settlement, reports Sapa.

"This slogan inciting people to murder was used, and condoned . . . at an official ANC function, despite indications by the ANC that it was not to be used, and despite the fact that the ANC has been found guilty of contravening the peace accord."

Medical Council welcomes Bill

BDay 18/6/93

DIRK VAN EEDEN

THE Medical Research Council yesterday welcomed legislation forcing cigarette distributors to warn potential customers — in their advertisements — of the dangers of smoking.

The Tobacco Products Control Bill was passed by Parliament on Wednesday night and also prohibits the sale of tobacco products to children.

Council spokesman Dr Derek Yach said although the legislation was not as comprehensive as that of some other Western countries, it did provide a platform for further measures.

He said the council would evaluate the impact of the legislation on health behaviour over the next few years

He said he hoped increased prices through tax would form part of the next Budget

(198)

The council had calculated that a R1 rise in the price of a packet of cigarettes would bring in R1bn extra in excise revenues. The number of smokers would decrease by 1-million and at least 200 000 premature deaths would be prevented over time, he said.

president Roy Andersen.

Picture ROBERT BOTHA

East Rand violence claims nine more lives

BDay 18/6/93

LLOYD COUTTS

NINE bodies of people killed in incidents of violence on the East Rand were discovered by police yesterday.

The police also recovered large quantities of arms and ammunition during searches in the region.

Five people were shot and killed when a group of men — armed with AK-47s, R-1 rifles, shotguns and 9mm pistols — rampaged through Tembisa's Welamlambo Section at about 5.30am yesterday, Sapa reports.

Twenty people were injured during the incident and were taken to Tembisa Hospital for treatment

Police said they did not know the motive behind the shootings

Police also reported a shooting in Katlehong, where the body of an unidentified 62-year-old man was found in Zuma Section.

East Rand police spokesman W/O Deon Peens said the charred body of a man was found in Thokoza yesterday morning.

Meanwhile, policemen from the Dog Unit confiscated nine AK-47s, 15 AK-47 magazines and a VZ hand-machine carbine and arrested four men after searching a minibus on the N12 near Benoni yesterday morning

In Tembisa, the Sethokga Hostel was sealed off and raided by police and SADF members Three handguns, ammunition, traditional weapons, car radios, typewriters, a surveyor's telescope and two stolen cars were seized

"These operations were carried out in accordance with the 10-point plan announced by the Commissioner of the SAP earlier this year, in which Gen (Johan) van der Merwe promised the SAP would maintain a visible presence throughout the Republic in a sustained effort to prevent and combat crime," a police statement said.

A Boipatong woman, aged about 23, was killed when gunmen armed with hand weapons opened fire on patrons in a tavern on Bathlong Street early yesterday Police said the men demanded money before opening fire

Meanwhile in Natal, two people died in separate incidents

The body of 20-year-old Mbongeni Edward Shange was found near the railway line between Zwelethu and Reunion stations, south of Durban.

In KwaMashu, also near Durban, a 27-year-old suspect who fled police was shot dead after ignoring a warning to stop

BUSINESS

Tobacco summit ends on tense note

BIDAY 23/11/93

MICHAEL HARTNACK

HARARE — Zimbabwean tobacco growers and international anti-smoking lobbyists departed, fuming, to their homes last week after a historic but barely amicable first encounter

The four-day All Africa Conference on Tobacco Control adjourned after noting the beginning of a unique "dialogue between tobacco growers and health representatives". "The outcome was understandable frustration on both sides, but we do believe a door was opened," said conference organiser Derek Yach, from SA

Zimbabwe Tobacco Association representatives accused the anti-smoking lobby of imperilling a drought-hardy crop which cannot be replaced as a source of up to 27% of the country's foreign currency Light sandy soils suitable for tobacco cannot be used easily for other crops

The Zimbabwe Tobaacco Association and the International Tobacco Growers' Association launched a booklet, Trade or Aid, suggesting suppression of tobacco industries would make states such as Zimbabwe and Malawi dependent on fickle aid handouts

(198)

However, World Bank senior economist Howard Barnum, from Washington, told the conference that the health costs of the international tobacco industry far outweighed its profits Consequently, the bank refused to fund projects linked to it.

Delegates accused the multinational tobacco corporations of seeking to "push" tobacco consumption in the Third World to make up for lost sales in the increasingly health conscious West.

Simon Chapman of the Australian Tobacco Control Journal claimed British American Tobacco had in the past six years earned more than R215m for the UK economy in exports to Africa.

Zimbabwean Health Minister Timothy Stamps said governments of developed states reaped far more in tax and excise duties on imported tobacco than was paid to Third World growers. He also noted the heavy EC subsidies to its own tobacco-growing farmers in Mediterranean regions, leading Zimbabwe Tobacco Association members to predict that voluntary cutbacks in Zimbabwe's high quality low-nicotine content crop would lead to increased, subsidised production of low grade high-nicotine leaf in southern Europe

David Simpson of the International Agency on Tobacco and Health challenged the view tha tobacco must be seen against the background of world consumption of all forms of drugs and narcotics, most of which were illegal, such as marijuana, cocaine and heroine, or had far more grave health and social consequences, such as alcohol Nicotine was so addictive that use could not be confined to a few puffs when the user had suffered stress.

Yusuf Saloojee of the SA Council against Smoking said two out of three adults "do not smoke and do not find a need to use any other substance to live life fully"

California University's Thomas Navotny said deaths from tobacco-related disease exceeded those from all other forms of drugs and narcotics

Chapman carried by acclaim a motion that none of the delegates wished to see tobacco prohibited: they wished to see restrictions on consumption, particularly among the vulnerable, such as the young.

Observers noted a high level of paranoia on both sides during the conference, with the tobacco representatives privately vilifying the anti-smokers as a parasitic "industry" earning their living (and trips around the world) by trying to destroy cultivation of a legitimate crop. The conference at Harare's five-star Sheraton Hotel was sponsored by the International Centre for Disease Control, Canada's Disease Research Council and the American Cancer Society, among others

A photographer from a tobacco trade magazine was tongue-lashed for working for persons reaping profits from destroying the health of children Yach said the only reason the tobacco trade supported bans on sales to minors was because it knew they could not be enforced

Other representatives suggested the influence of the Stellenbosch-based Rembrandt van Rijn Group lay behind Rothmans and other "transnationals" through a complicated system of shareholdings. They stopped only a little short of suggesting death squads of the SA Civil Co-operation Bureau had been caught handing out filterless king-size cigarettes to anti-apartheid activists. The ANC sent a message of solidarity pledging anti-smoking action when it came to power.

Yach said the congress had taken account of the interests of tobacco growers, particularly in the Third World, but these were distinct from those of the profit-conscious transnational corporations

Tobacco tax set to increase

KATHRYN STRACHAN

A LARGE increase in tobacco tax is expected in next year's Budget following a meeting last week between government and the ANC-linked Macro Economic Research Group. BD CM

Medical Research Council spokesman Derek Yach, who chaired the meeting which was also attended by international tax experts, said there was "substantial agreement" on raising the tax.

While further calculations were needed before a final figure could be proposed, Yach said there were indications that consensus would be reached soon on tripling the tax. 25/11/93

Canadian tax expert David Sweanor said SA's tobacco tax of 30% was the world's lowest. Most were in the 64%-90% range.

Increasing the retail price of a pack of cigarettes by R1 would bring in R1bn, and would also reduce health care costs.

By directing the proceeds to the poor, tobacco tax was the most popular way of raising taxes, said Sweanor. (198)

The United Tobacco Company said trying to stop people from using a legal product was not the function of taxation. Since excise taxes were usually imposed on a product at a flat rate, everyone paid the same amount, thus placing people who earned less at a disadvantage.

Meanwhile, health officials from local authorities have called for the immediate promulgation of the Tobacco Products Control Act, which will allow them to regulate smoking in public places

The council said that at meetings in Cape Town and Johannesburg this week, the representatives had noted with concern a "considerable" delay in bringing the Act into force It was passed by Parliament earlier this year, gazetted on July 2, but has yet to be brought into operation.

They also recommended that tobacco advertising on premises owned or occupied by local authorities be banned

Academic debunks tobacco 'golden goose'

BDay 17/11/93

KATHRYN STRACHAN

TOBACCO helps keep the peace in struggling countries, provides women with a symbol of independence, identifies a smoker's status and aspirations and gives the world great product names, the tobacco industry journal Tobacco Reporter claims.

However, these "advantages" notwithstanding, it cost Africa $25m a year in balance of trade deficits, Australian academic Simon Chapman told a Harare conference on tobacco and health yesterday

Attacking a claim by the journal that tobacco earned vital hard currency for developing nations, he said Africa had a tobacco trade deficit of $417m, excluding export earnings from Malawi and Zimbabwe Combined, African countries spent $465m importing tobacco products and earned $440m from exports, leaving a $25m continental tobacco trade deficit However, it was misleading to cite this as an index of tobacco's "cost" to Africa because 94% of tobacco export earnings went to Malawi and Zimbabwe

When these two countries were excluded from the calculation, the continental deficit rose nearly 17 times to $417m

The false perception that tobacco was "a fat goose that lays golden eggs for impoverished Third World countries" obstructed the implementation of tobacco control policies, Chapman said (198)

Tobacco accounted for 60% of Malawi's export earnings and 20% of Zimbabwe's However, Chapman warned that economies heavily dependent on a single industry were particularly vulnerable to the vicissitudes of the corporations which purchased up to 95% of the tobacco exported from the developing world

Call to increase tobacco tax

BIDay 19/11/93

KATHRYN STRACHAN

AN INTERNATIONAL delegation of tobacco and tax experts is to meet government and ANC leaders over the next two days to lobby for an increase in SA's tobacco tax — the lowest in the world

Canadian tobacco tax expert David Sweanor said yesterday tax on the retail price of cigarettes in SA was 30%, less than half the tax levels in the rest of the world, where it ranged from 64% to 90% Other developing countries were among the highest taxers, Sweanor added

The US, which also taxed only 30%, was in the process of tripling the tax as part of its health care system restructuring.

Sweanor said the political changes in SA opened opportunities for authorities to make significant changes to tobacco taxes

Increasing tobacco taxation had a double economic benefit — it would reap a significantly higher tax revenue and, as it was the single most effective instrument in reducing smoking, it would drastically lower health care costs

He said the low tobacco tax had cost the SA government "billions of rands" in the past few years in higher health costs and lost revenue

(198)

The delegation told a news briefing it would meet health officials to discuss implementing regulations against smoking in public While SA had made important legislative changes, such as banning sales to minors, health authorities had not yet promulgated many of the regulations, such as banning smoking in public places

The delegation arrived yesterday from the All-Africa Conference on Tobacco and Health in Harare — the first of its kind on the continent

Legislation extends warning on tobacco

CAPE TOWN — The Tobacco Products Control Bill, published in Parliament yesterday, extends the existing compulsory health warning on cigarette packets to all tobacco products and advertisements.

Tobacco products and adverts will also have to carry a notification of the quantities of harmful constituents, such as tar and nicotine, contained in the product, Reuter reports

BIDAY 24/3/93

In a bid to prevent familiarity with the health warnings, the Bill proposes to give the Health Minister the right to regularly change the wording and presentation.

TIM COHEN reports the legislation will also prohibit the sale of cigarettes to anyone under 16 years old.

The legislation includes a stipulation that officials will be able to prevent the sale of cigarettes in vending machines.

(198)

The Bill aims to make the public aware of the health hazards involved in the use of tobacco products.

However, it effectively constitutes a victory for tobacco product sellers by not dealing with Health Minister Rina Venter's suggestion that non-smokers ought to have the power to prevent passive smoking, especially in office situations.

Venter has said this suggestion would best be dealt with by local authorities.

KATHRYN STRACHAN reports that the Tobacco Institute of SA said advertising tobacco did not influence people to take up smoking or encourage existing smokers to continue, and added that by regulating advertising, the Bill contravened "freedom of commercial speech".

In a statement the industry said the purpose of cigarette advertising was to promote specific brands to existing smokers.

Existing systems of control — such as health notices displayed on packets and monitoring by the Advertising Standards Authority — were more appropriate than legislation, the institute said.

Annual tobacco losses at $200bn

KATHRYN STRACHAN

TOBACCO use was a global economic disaster, amounting to an annual worldwide loss of $200bn — half of which was in developing countries, a World Bank economist said at the weekend.

Speaking at the All-Africa conference on tobacco and health being held in Harare, World Bank health department senior economist Howard Barnum said producer profit was dwarfed by the cost of mortality and disease caused by tobacco.

Globally, tobacco caused more than 3-million deaths in the past year, he said. Urbanisation, access to mass media and increased income would lead to an increase in smoking in many developing countries, and it was estimated that tobacco would cause 10-million deaths a year by 2025.

B/Day 16/11/93

He said international tobacco companies had targeted the developing world to replace diminishing sales in Europe and the US, and urged African nations to adopt cost-effective anti-tobacco policies.

Barnum said governments could not control the socioeconomic changes that lead to an increase in smoking, but they could exert considerable policy control over retail tobacco prices, advertising and promotional schemes.

"To avoid the high economic cost of increased tobacco consumption, African countries need to act now to implement policies to offset the effects of socioeconomic change and tobacco company promotion on future tobacco use," he said.

Cigarette prices, greatly affected by excise taxes, had strong effects on the number of new starters, but had less impact on established smokers. Teenagers in lower income countries were expected to be highly responsive to the price of cigarettes.

198

Tobacco advertising was found to be the most important factor in promoting smoking. However, experience around the world showed that government health information campaigns, regulation and other government policies could help offset efforts by tobacco companies to expand tobacco markets.

PRIMARY HEALTH CARE FEATURE Tobacco-related diseases claim thousands of lives

25 000 die from smoking in a year

■ Medics call for more tax on cigarettes:

Sowetan 26/4/93. 198

By Mokgadi Pela

LEADING medics have urged the Government to impose more tax on tobacco to reduce the number of smoking-related deaths in South Africa

Drs Dereck Yach of the Medical Research Council, James McIntyre of the Department of Obstetrics and Gynaecology at Baragwanath Hospital and Yusuf Saloojee of the Council Against Smoking, said 25 450 smoking-related deaths were reported in 1988 and 110 856 potential years of life were lost in the age group 35-64 years

In economic terms tobacco use resulted in losses of R1,1 billion from lost productivity due to premature death and hospitalisation, while an additional R289,6 million resulted from direct health costs.

They said Government intervention was necessary to control the monopolistic nature of the tobacco industry which has a strong influence on consumer demand. For example, while the industry spends R150 million a year on tobacco advertising, less than R5 million is spent on health promotion

This results in the population's knowledge being determined by the industry

An article in the *South African Medical Journal* said Government intervention was required not only because of market imperfections but also due to tobacco control programmes since non-smokers are also affected.

The doctors argued that price was the single most important determinant of the demand for tobacco and thus taxation has a great potential to deter smoking.

Evidence has shown that a price increase would result in a decline in demand Teenagers are particularly sensitive to price increases with evidence in the UK suggesting that a 10 percent hike is linked to a 14 percent decline in cigarette consumption

In South Africa, since the retail price of cigarettes has lagged behind the overall consumer price index over the past decade, tobacco has become more affordable The benefits of tobacco tax include increased revenue for the Government, decline in the prevalence of smoking and thus the costs associated with smoking-related deaths.

It does this by increasing the quit rate; stopping new recruits entering the market and causing heavy smokers to reduce the habit. There is also public support for taxation as shown by surveys in Canada and South Africa where it was shown that 56 percent of adult smokers supported an increased tax

Increased tax is also supported by a group of academics at the University of Natal and several health organisations

Opponents of increased tax on tobacco include the Tobacco Institute, the Tobacco Manufacturers Association and selected media

Male drug to stop sperms

■ New contraception on the way:

By Mokgadi Pela

SCIENTISTS believe they are several steps away from developing a safe, effective and reversible form of male contraception.

According to an article in *The Medical Post*, thousands of men worldwide were testing various male contraceptive drugs, vaccines or devices

One expert says it is about time

Dr Carl Djerassi, who developed the active ingredients of the birth control

Rembrandt exceeds market expectations

BDay 9/12/93

MARCIA KLEIN

THE Rembrandt Group (Remgro) has surpassed market expectations, posting a buoyant 17% rise in net income to R530,8m (R455,2m) in the six months to September.

Earnings rose to 101,7c (87,2c) a share and the interim dividend, declared in August together with a special dividend of 14,52c a share, was raised 20% to 17,04c (14,2c) a share. (198)

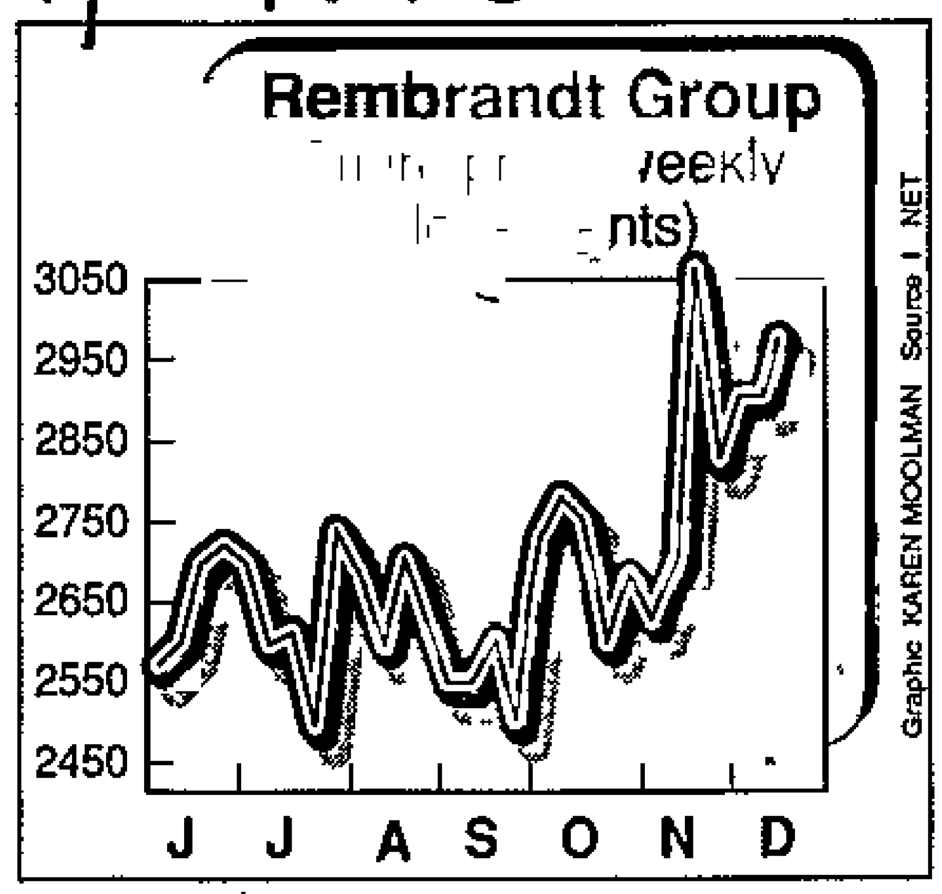
As usual, directors made no comment on the group's performance or details of the fortunes of its tobacco, mining, industrial and financial services interests

An analyst said yesterday he believed the results indicated a good performance by its tobacco interests and the benefits of lower taxation

The directors said that after eliminating internal transactions, turnover — consisting of net sales including excise duty, fees, rental and investment income — was up 10% at R2,2bn (R2bn) Operating income was 8% higher at R532,5m (R494,5m). After an increase in dividend income and a lower interest bill, net pre-tax income was 10% higher at R642,3m (R586m).

Net taxed income was 15% higher at R430,7m (R376m)

Capital commitments at end-September amounted to R328,5m from just R10,1m in



the previous year.

Remgro's investment in cellular phones, through its 15% partnership in Vodacom, would amount to about R41m in the current year.

It also invested a further R28,3m in the Lenco group in October

While there were no forecasts for the second half, the directors said income did not necessarily accrue evenly throughout the year

Rembrandt Controlling Investments, which has an effective 51,1% stake in Remgro, reported interim earnings of 75,3c (64,6c) a share. An interim dividend of 12,61c (10,51c) a share was declared with a special dividend of 10,75c a share.

Rembrandt Group beats market's expectations

(198)

ARGT 9/12/93

MARC HASENFUSS
Business Staff

THE Rembrandt Group beat market expectations to post a solid 17 percent increase in earnings in the half year ended September.

The interim results were accompanied by the traditional silence on group and divisional performance

In the absence of commentary it would, however, be reasonable to assume that the mainstay tobacco operation put in another satisfactory performance The results also indicate a stronger showing from associate companies

Directors, however, did report that group turnover moved up 10 percent to R2,2 billion in the period under review

Rembrandt's operating income came in 7,7 percent higher at R532,5 million This was supplemented by a 10 percent increase in dividend income to R143 million — pushing net income before interest up 8 percent to R666 million

A drop in interest paid to R24 million, a reduction in the tax rate and a 16 percent jump in the contribution from associate companies to R118 million bolstered net income from normal business operations to R531 million

This translated into earnings a share of 101,70c (previously 87,20c) for the interim period As announced in August, an interim dividend of 17,04c a share and a special dividend of 14,52c a share was declared. Dividends were paid out in October

In the period under review, Rembrandt acquired a 15 percent partnership interest in the cellular telephone network group Vodacom. The group's investment for the current financial year will be about R41 million

The group also invested another R28,3 million in the Lenco Group

Rembrandt's balance sheet has also been strengthened Interest bearing debt totals R354 million — down 37 percent from last year's R562 million Gearing remains negligible

The group also has ample cash resources of close to R590 million

Directors made no forecasts for the second half of the year — but pointed out that income did not necessarily accrue evenly throughout the year

Remgro's net income rises

Star 9/12/93

A modest operating income gain, combined with the lower corporate tax rate, lifted Rembrandt Group's (Remgro) net income from business operations 17 percent to R530,8 million for the six months to September.

Operating income rose 8 percent to R532,5 million, while the lower corporate tax rate resulted in net income increasing 9,6 percent pre-tax and 14,5 percent post-tax.

Earnings from normal business operations rose from 87,2c to 101,7c a share.

The conglomerate, with investments in financial services, mining, industry, food and tobacco, is paying an interim dividend of 17,04c (14,2c) and a special dividend of 14,52c.

Remgro notes that income does not necessarily accrue evenly throughout the year and that earnings in the second half should not be expected to be the same as in first six months. (198)

The results of Rembrandt Controlling Investments (RBB), which has an effective 51 percent stake in Remgro, are entirely dependent on Remgro's performance.

RBB reports earnings from normal business operations at the interim stage of 75,3c (64,6c) a share.

The interim dividend is 12,61c (10,51c) and a special dividend of 10,75c has been declared.

The results of the Technical Investment Corp (Tegkor), which has an effective interest of 20,7 percent in Remgro through its shareholding in RBB, are entirely dependent on Remgro

Tegkor posted earnings from normal business operations of 66,1c (56,7c) a share and has declared an interim dividend of 11,06c (9,22c) and a special dividend of 9,43c

The results of Technical and Industrial Investments (TIB), which has an effective stake of 17,4 per cent in Remgro through its interests in Tegkor and RBB, depend solely on Remgro.

TIB achieved earnings a share from normal business operations of 70c (60c) a share.

It is paying an interim dividend of 11,73c (9,77c) and a special dividend of 10c.

— Sapa.

Media development costs trim Richemont's profits

Star 2/12/93

(198)

BY MARC HASENFUSS

The Rupert family controlled Richemont Group, which recently reshaped its tobacco and luxury goods operation into two seperate companies, reported a slender two percent increase in attributable profit to £97 million in the half year to end September.

Operating profit, buoyed by growth in the principal tobacco and luxury goods business, was up a solid 10 percent at £294 million. However, Richemont's bottom line growth was restricted by the continued cost of developing its media interests.

Tobacco showed a 9 percent dip in sales volume in the interim period, with markedly reduced sales reported from France, the UK and Yugoslavia. But net sales revenue — thanks to exchange rate movements — increased 12 percent to £1,2 billion.

Tobacco contributed £213 million to Richemont's operating profits, nearly 9 percent more than the previous interim period.

Directors said the largest gains were made in Rothmans of Pall Mall (Malaysia) and in Rothmans Holdings of Australia. Both companies are 58 percent held by Richemont.

Luxury arm Vendome showed an exchange rate driven 15 percent jump in sales revenue of £524 million in the review period with jewellery and writing instruments recording increased sales and watches and leather products showing a moderate fall off.

Improved trading margins pushed Vendome's gain at operating level to 24 percent at £90 million.

Directors said operating losses in non core activities increased by £8 million to £8,7 million mainly on the back of higher losses incurrd by FilmNet SA and a reduced profit contribution from the NAR group

Looking ahead, directors predicted a satisfactory performance in the year to end March.

Difficult trading conditions were, however, expected to continue in Vendome's major markets in the second half of the year.

They also warned that significant additional costs were likely to be incurred in developing Richemont's media interests.

Richemont's restructuring, announced in June this year, was completed at the end of October. Richemont's interests are as follows.

- A 60,6 percent interest in Rothmans International.
- A 69,7 percent interest in Vendome Luxury Group.
- A 50 percent interest in Network Holdings SA (which holds 90 percent of FilmNet - Richemont's principal media investment).

Richemont turns in pedestrian figures

BDay 2/12/93

MARCIA KLEIN

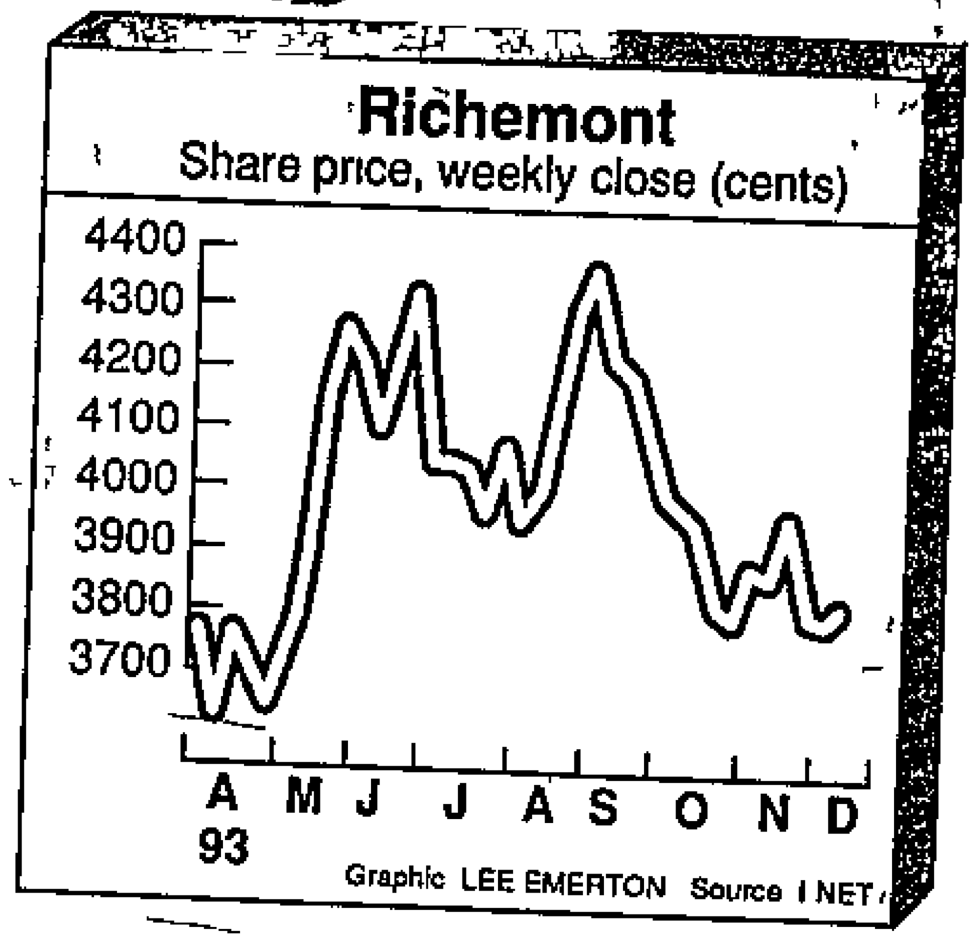
RICHEMONT has reported a pedestrian 2,2% rise in attributable profit to £96,6m (£94,5m) for the six months to September on the back of good performances from its core tobacco and luxury goods interests and losses in its media interests

The group, the offshore vehicle of the Rupert and Hertzog families, said in June it would split its luxury goods and tobacco interests After restructuring, it now owns 60,6% of Rothmans, which houses its tobacco interests, and 69,7% of the Vendome luxury goods group. (198)

The interim results reflect Richemont's interests in the adjusted results of the tobacco businesses transferred to the new Rothmans International and the pro forma results of Vendome. Prior results have been restated to facilitate comparison.

The group's net sales rose 13,2% to £1,7bn (£1,5bn) and operating profit was 9,8% higher at £294m (£267,8m).

Directors said this reflected growth in tobacco and luxury goods, with the adverse effect of continuing development costs in



media interests — 50%-held European pay channel FilmNet and a US direct retailer held through 50%-owned NAR Group.

Net revenue from tobacco rose 12,4% to £1,2bn and from luxury goods 15,4% to £524,4m While tobacco's operating profit grew 8,6% to £212,6m, that in luxury goods rose 23,9% to £90,1m. An operating loss

☐ To Page 2

Richemont

BDay 2/12/93

☐ From Page 1

from other interests widened to £8,7m (£0,7m) Group profit after tax was 15% higher at £210,6m (£182,8m) A hike in minority interests to £114m (£88,3m) — largely the result of higher profits in Rothmans of Pall Mall (Malaysia) Berhad and Rothmans Australia — diluted growth at the attributable level to 2,2%, or earnings of £16,62 (£16,46) a unit (198)

The directors said average exchange rates for the period had the effect of increasing pre-tax profit by £43m and attributable profit by £12m

The net effect of the changes to the group structure was to increase the rate of growth in pre-tax profit to 9,8% (8%), and decrease the rate of growth in attributable profit to 2,2% (2,6%)

Directors said the worldwide volume of cigarette sales by Rothmans group companies was 9% lower than the previous year's, largely the result of lower sales in Europe and the Philippines But exchange rate movements lifted net sales

In Vendome, jewellery and writing instruments showed an increase in sales, but sales of watches and leather goods were down Europe remained the major market for its products There was a drop of 10% in sales volumes in the Far East after a drop in demand from Japan

The directors said the results did not reflect any provision for costs associated with the group's restructuring Richemont's share of the costs at attributable profit level would amount to about £52m

They expected Rothmans and Vendome to report "satisfactory" trading results for the full year Further investments would be required in developing the media interests, and significant additional costs would be incurred in the second half

Remgro lifts earnings 16%

(198) CT 9/12/93

By AUDREY D'ANGELO
Business Editor

THE Rembrandt group (Remgro) lifted attributable earnings from normal business operations by 16,6% in the six months to September, to 101,70c (87,20c) a share

The interim dividend is 17,04c (14,20c) a share and there is a special dividend of 14,52c

Tax

Operating income rose by 8% to R532,5m (494,5m) and dividend income to R133,9m (R122m) The interest bill fell to R24,1m (R30,5m)

Because of the lower company tax rate, the tax bill rose only to R211,6m (R210m), in spite of the higher profits and an extra R3m paid in Secondary Tax on Companies (STC)

This meant that net income rose by 9,6% before taxation to R642,3m (R586m) and by 14,5% after tax to R430,7m (R376m)

Turnover including excise duty, fees, rental and investment income rose to R2,2bn (R2bn)

The directors point out that income does not necessarily accrue evenly throughout the year Income earned in the second half should therefore not be expected to be the same as in the first half

They say their investment in the Vodacom group, which has been granted a licence to operate a cellular telephone network, will be about R41m in the current financial year Remgro has a 15% stake in Vodacom

● The results of Rembrandt Controlling Investments, which has an effective 51% stake in Remgro, are entirely dependent on Remgro's performance

It reported earnings a share from normal business operations of 75,3c (64,6c) It declared an interim dividend of 12,61c (10,51c) and a special dividend of 10,75c

Dividends

● The Technical Investment Corporation (Tegkor), which has an effective interest of 20,7% in Remgro through Rembrandt Controlling Investments, reported earnings from normal business operations of 66,1c (56,7 c)

The interim dividend is 11,06c (9,22c) and the special dividend of 9,43c

● Technical and Industrial Investments (TIB) achieved earnings a share from normal business operations of 70c a share (60c) The interim dividend is 11,73c (9,77c) and the special dividend is 10c a share

Tobacco tax hike could affect industry

MARCIA KLEIN

A POSSIBLE hike in tobacco tax could affect major tobacco groups Rembrandt and Utico if the increase is not phased in gradually, industry analysts say.

It has been reported that there could be a significant increase in tobacco tax in next year's Budget. B/DAY

An industry spokesman said SA currently had a 38% tax, including excise and VAT These were the taxes levied directly on the product and did not include corporate taxation 20/12/93

According to industry sources, SA's tax was in line with Zimbabwe (34,4%) and Malawi (36,8%), and below that of Kenya (57,9%) and Mauritius (54,4%) SA's tobacco tax was significantly below that of the major First World countries (where the tax is often higher than 60%), but not the US, where it is 30%.

In the Tobacco Board's annual report to end-March, it said the industry paid close to R1,6bn to government in excise duties, and sales tax The state derived R1bn from excise duties alone in 1992. (198)

Consumer spending on tobacco products totalled just under R6bn in 1992/93, compared with R4,9bn in the previous year.

COMPANIES

Slump hits tobacco producers

MARCIA KLEIN

A FURTHER decline in tobacco consumption and a slump in international tobacco prices would put unprecedented pressure on the profitability of producers and could result in another decline in their numbers, Tobacco Board chairman Jopie Graham said in the board's annual review.

He said a decrease in consumption implied a decrease in the requirements of buyers. This had resulted in local surpluses — specifically of flue cured tobacco — being carried over into the current year.

"Because of large-scale worldwide stockpiling, the prospects of a quick recovery are non-existent," Graham said.

However, the industry was bound to a more market-orientated marketing and production strategy for the future. This, together with normalisation of world prices, would enable the industry to survive in the long term. B/DAY

Until this happened, the industry needed good planning, co-operation and "probably also a good deal of sacrifice". 23/12/93

He said the board's review of its role had led to a number of changes. A marketing agreement between producers and buyers had opened the way for a more client-orientated future in the marketing of local tobacco (198)

The board had decided to abolish the special levy on both tobacco sales and imports and to reduce its reserves in order for the industry to become more market orientated.

MANUFACTURING— TOBACCO

1994

Richemont's rating slumps despite underlying quality

BIDay 3/1/94

MATTHEW CURTIN

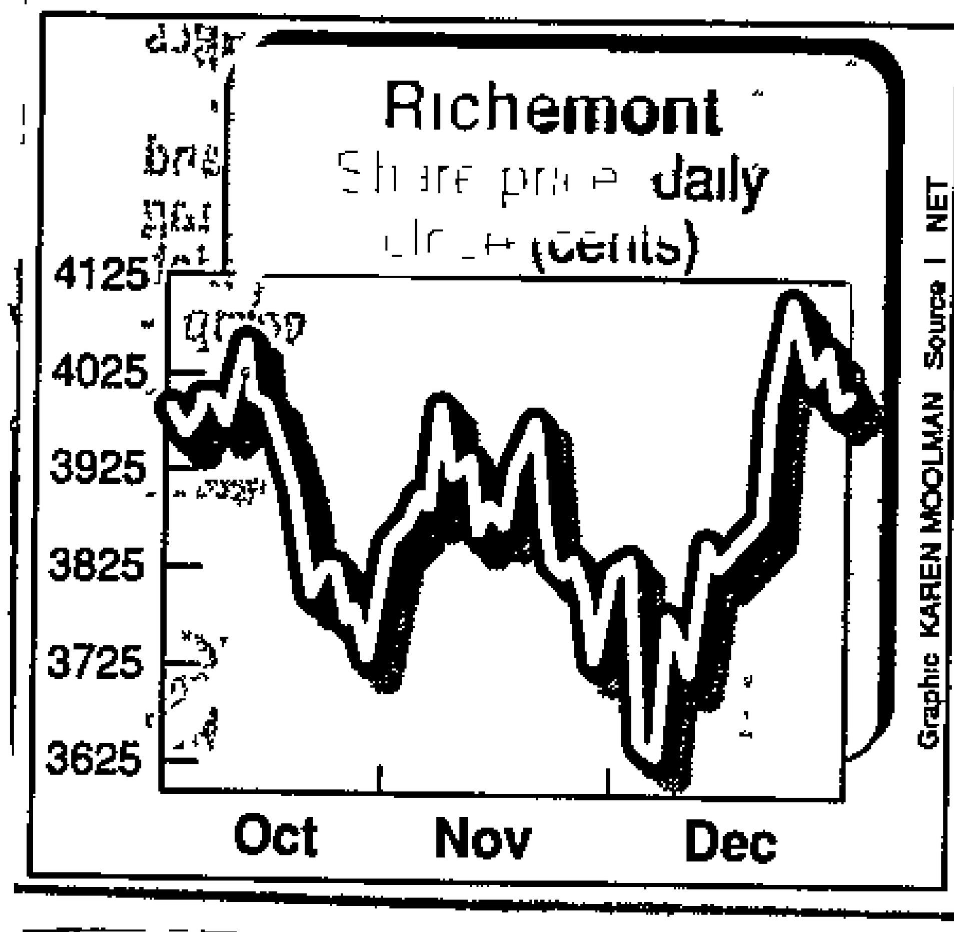
RICHEMONT, the Swiss-based tobacco and luxury goods group owned by the Rupert and Hertzog families, has slumped to its lowest rating relative to the rest of the industrial sector since its listing in 1988

The group remains highly rated in its own right, on a dividend yield of 0,75% and a historic earnings yield of 4,2%, but has been left behind by the soaring industrial index in the past three months

Richemont gained 15c to R40,15 in Friday's half-session on the JSE, while industrials' gravity-defying performance continued, the index rising 11 points to 5 573.

However, some analysts remain bullish about the group's prospects in 1994 and 1995 — not least because Richemont remains a quality rand-hedge stock.

Bottom-line earnings rose a little more than 2% to £97m (£95m) in the half-year to September, but one market source notes that once the distorting impact of European foreign exchange rate movements was stripped out of the results, underlying earnings declined by more than 10%. The windfall benefit of gyrating currencies is unlikely to recur this year. (198)



Richemont's performance in calendar 1993 was knocked by the depth of recession across Europe, and development costs incurred by its media interests — European pay TV channel Filmnet and a US direct retailer — did not help

However, analysts believe the restructuring Richemont undertook in the year bodes well at least for 1994/95.

Richemont said in June it would split its luxury goods and tobacco interests to own 60,6% of Rothmans, its tobacco empire, and 69,7% of the newly created Vendome, owner of the Cartier, Dunhill and other luxury brands Vendome, which reports results in Swiss francs, turned in a static peformance in the interim period.

Analysts say Vendome's outlook is particularly good, having become a vertically integrated procurer and distributor of high-value items which should result in significant cost savings.

In the longer term, the decline in contribution to group earnings from Rothmans' European tobacco interests could be offset by its penetration of Asian markets, while Filmnet promises rapid earnings growth once it has broken even.

COMPANIES

Utico-UK parent deal possible

MARCIA KLEIN

TOBACCO and snacks group Utico could soon announce a deal involving its UK parent BAT Industries, analysts said

On Friday the group cautioned shareholders that it was involved in negotiations. Analysts said the inclusion of Standard Bank London in the cautionary announcement indicated the negotiations included Utico's UK holding company BAT Industries. BDay 31/1/94

There was a chance that industrial conglomerate BAT could be increasing its 63% stake in Utico by buying out minorities through a finrand investment.

There was also the possibility of a joint-venture deal between Utico and another company in the BAT stable, similar to the deal struck recently between Foodcorp and US-based Pillsbury.

Analysts doubted that BAT would want to decrease its stake in the profitable company at this stage, although there was much speculation in 1989 that BAT wanted to disinvest.

But one analyst pointed out that the ANC had made clear its intention to significantly increase excise duties on cigarettes, and this statement could have scared BAT off.

A source said the cautionary could also be linked to speculation that major US group Philip Morris — which owns Marlboro — was entering SA. However, it is believed that Rembrandt has already secured the licence to market Marlboro.

There were also numerous possibilities for local deals, but these would not necessitate the involvement of BAT.

On Friday the share lost 500c or 5% to close at R95 on news of the cautionary announcement. (198)

The share traded at a high of R102 earlier in the month, and a low of R81,50 in January last year.

Remgro divs jump 20 percent

ARG 3/2/94 (198)

Business Editor

CASH-RICH Rembrandt Group continued its trend of improved rewards for shareholders in its 50th birthday trading year

The group, which traditionally declares dividends before annual results, is expected to end the year strongly after its interim report for the half year ended September showed a solid 17 percent increase in earnings

Remgro and its pyramid companies, which normally have a conservative dividend policy, have increased dividends by 20 percent for the year

Remgro has paid a final dividend of 26,40c a share (1993 22c) This dividend, together with the interim dividend of 17,04c paid during October gives a total of 43,44c for the current financial year (36,20c) During October the company also paid a special dividend of 14,52c a share

Rembrandt Controlling Investments paid a final dividend of 19,55c a share (1993 16,29c) Together with the interim dividend of 12,61c paid during October this gives a total of 32,16c a share for the current financial year (26,80c) During October a special dividend of 10,75c a share was paid

Technical Investment Corporation paid a final dividend of 17,16c (1993 14,30c) This dividend, together with the interim dividend of 11,06c a share paid in October, gives a total of 28,22c a share (1993 23,52c) During October the company paid a special dividend of 9,43c a share

Technical and Industrial Investments paid a final dividend of 18,19c (1993 15,6c) Together with the interim dividend of 11,73c paid during October this gives a total of 29,92c for the financial year (24,93) During October a special dividend of 10c a share was paid

Remgro subsidiary Stellenbosch Farmers' Winery Group Limited yesterday declared an interim dividend of 3,5c an ordinary share

Bullish Remgro raises final payout by 22%

CT 3/2/94 By ARI JACOBSON (198)

THE Rembrandt group (Remgro) is set to produce good results for the year to March 1994 after yesterday announcing it would be raising the final dividend payout by 20% to 26,4c (22c) a share for the year to March 1994

The total dividend now jumps 20% to 43,44c (36,2c) a share.

The Rembandt group follows the custom of releasing its dividend payouts before the revealing interim or final results and this is considered an early signal of Remgro's financial performance

"There is no doubts that Remgro have done well and this should boost the positive sentiment on the market," said an analyst yesterday

Remgro is about the eigth largest share, based on market capitalisation, on the JSE and takes up about 3,3% of the All-Share Index

Rembrandt Controlling Investments increased its final dividend declaration by 20% to 19,55c (16,29c) a share, to push its total dividend to 32,16c (26,8c) a share.

Technical Investment Corporation increased its final dividend by 20% to 17,16c (14,3c) a share and the total dividend amounted to 28,22c (23,52c) a share. Technical and Industrial Investments final dividends were up 20% at 18,19c (15,16c), with the total dividend up at 29,92c (24,93c) a share

Analyst 'bullish' on Remgro

By AUDREY D'ANGELO
Business Editor

EXCISE duty on cigarettes is likely to go up by 7% a year for the next two years, predicts Syd Vianello, analyst at stockokers Ed Hern, Rudolph

Inflation is likely to push the price up even more, but Vianello thinks cigarette sales in SA will rise after an initial fall of about 5% a year

He told investors at a presentation in Cape Town yesterday that he considered the Rembrandt Group (Remgro) a good share in spite of the fact that tobacco interests account for about 47% of its net asset value

Vianello said he expected "the broad middle class" to expand in SA and to continue to smoke He pointed out that although cigarette sales had dipped in the recession, sales of loose tobacco to smokers who rolled their own had risen

Sales of discounted cigarettes were unlikely to come to SA because there were only two manufacturers in the country and neither were likely to "cut their own throats" He did not expect any other manufacturer to come here

Pointing out that the group had a "considerable free cash flow" of more than R500m a year, he said its stength was underpinned by an investment portfolio representing 53% of its share price

(198) CT 5/2/94

New investments in cellular phones and other consumer goods should compensate in the longer term for any fall in tobacco earnings growth

Vianello was less optimistic about Richemont Margins on its luxury goods were squeezed and its cigarette operation, Rothmans, suffered from stiff competition and high excise duties in some markets

Interest bill helps Utico

Star 11/2/94

■ BUSINESS STAFF

A sharp reduction in interest rates offset poor volume growth at tobacco group Utico in financial 1993, enabling the company to lift attributable earnings by 16 percent to R36,95 million (financial 1992, R31,8 million).

Turnover was up by 5,8 percent to R606,9 million (R573,5 million) and operating profits rose by a modest 6,4 percent to R68,2 million (R64,1 million) (198)

However, interest payments were sharply lower, falling from R5,85 million to R2,3 million and boosting pre-tax income by 13,2 percent to R65,9 million (R58,2 million)

Earnings per share improved 16 percent to 608c (524c) and a final dividend of 365c a share was declared, 16,2 percent up on 1992's 314c

Utico did not provide further clarification on last month's cautionary statement

Low interest charges help boost Utico's bottom line

BIDay 1/12/94

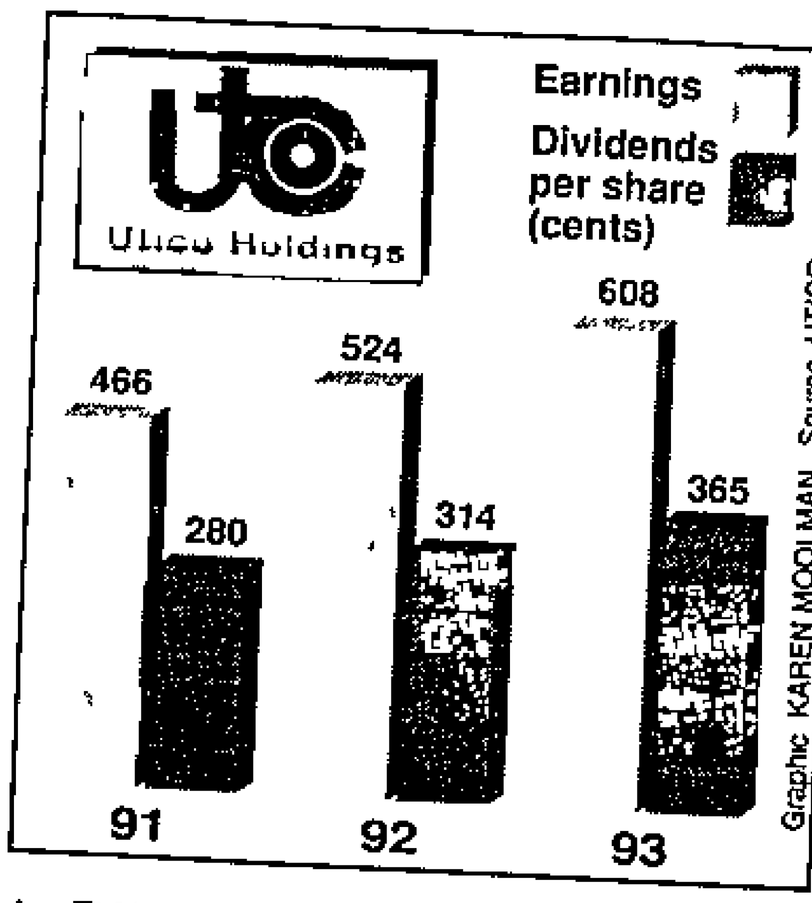
MARCIA KLEIN

TOBACCO and snacks group Utico has reported a 16% rise in earnings to 608c (524c) a share in the year ending December as lower interest charges helped to boost the bottom line.

The group, whose products include Benson & Hedges, JPS and Winston cigarettes and Willards snacks, increased its turnover 5,8% to R606,9m (R573,5m). Operating income was 6,4% higher at R68,2m (R64,1m).

An analyst said turnover and operating income were affected by low consumer confidence, and volumes would not have shown much growth. Bottom line earnings would have been boosted by good asset management, he said.

A sharp drop in interest payments to R2,3m (R5,9m) enabled the group to report a 13,2% rise in pre-tax income to R65,9m (R58,2m). A marginally lower tax rate resulted in the 16% increase in attributable earnings to R37m (R31,8m).



A final proposed dividend of 233c a share would bring the full year dividend up 16,2% to 365c (314c) a share.

Interest cover grew to a high 29,6 (10,9) times, and gearing was reduced to just 2,2% (17%). These were achieved despite warnings at the interim stage that borrowings and interest payments would increase in the second half as funds were invested in the extended United Tobacco modernisation programme.

(198)

Directors did not offer any details on the cautionary announcement, which was issued late last month.

Analysts said recently the cautionary indicated the deal would involve Utico's UK parent BAT Industries, which holds 63% of the group.

There was some concern among analysts that the cautionary could be in response to the ANC's intention to significantly increase excise duties on cigarettes.

It was also suggested that the cautionary could be linked to speculation that major US group Philip Morris was entering SA. But it is believed that the Rembrandt Group already holds the licence to market Philip Morris's major brand, Marlboro.

Yesterday the share lost 50c or 0,5% to close at R93, in line with a generally softer trend in the market. The share reached a high of R102 a month ago, rising from a yearly low of R82,50 in February 1993.

SA's tobacco lobby takes a leaf from Mohawk book

By TERRY BETTY

MOHAWK Indians smuggling cigarettes into Canada have shown why the South African government should not impose heavy taxes on tobacco, says Tobacco Institute of Southern Africa spokesman John Groenewald. S I Times

Mr Groenewald says the Mohawk smugglers have destroyed Canada's formal cigarette business and the same could happen here.

The ANC has indicated it may raise cigarette taxes and it has been estimated that a rand-a-pack increase would net R1-billion a year.

SA's tobacco tax of about 38% is close to that of neighbouring states, but lower than the 60% to 90% of First World countries. C Buss

The Tobacco Board says spending on tobacco products rose to nearly R6-billion in 1992-93 from R4,9-billion the previous year.

Because of the cost difference between Canada and US, contraband cigarettes account for 50% of the Quebec market. (198)

The "Warrior Society" lays claim to Indian reservations that straddle the Quebec-Ontario-US border, which has become an unofficial free-trade zone, says a report by accountant KPMG Peat Marwick Thorne.

Legitimate retailers have lost R7,8-billion in turnover and policing the border has cost a fortune.

Pro-cigarette lobbyists say the tax has increased the number of smokers because contraband packages are cheap. 13/2/94

The Canadian government has subsequently slashed its tobacco taxes, almost halving the official cost of cigarettes.

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Rembrandt 'to hold licence on Marlboro'

CT 18/2/94 (198)

Own Correspondent

JOHANNESBURG — Philip Morris, the world's biggest food company, which owns Marlboro, could announce its entry into SA as early as next week, sources said yesterday

It has been speculated for some time that it would enter SA with Rembrandt as a local partner

It is believed Rembrandt, which already manufactures Chesterfield under licence to the company, has secured the licence to manufacture the Marlboro brand locally

However, Philip Morris's entry could also refer to a cautionary announcement issued recently by SA's other major tobacco manufacturer, Utico

Speculation of its imminent entry into SA was fuelled by an announcement on Wednesday that Marlboro's advertising agency Leo Burnett had entered an agreement with local agency D'Arcy Masius Benton & Bowles (DMB & B), who is to change its name and international partner in preparation for changes expected in the SA market after the election

But, Cape Town MD Andrew Pollock emphasised yesterday, its SA management and award-winning creative team will remain intact

From April 1 the SA agency will be known as Sonnenberg, Murphy, Leo Burnett — using the names of its chairman and creative director Willie Sonnenberg and Terry Murphy

Pollock said the change was decided on after the link between DMD & B Inc and DMD % B (SA) was reviewed last year

Unlike DMD & B Inc, Leo Burnett will buy a stake in the SA company Leo Burnett's major clients include Kellogg, Kraft General Foods, Philip Morris, Pillsbury, Procter & Gamble and Reebok

Oil price up

LONDON — The price of the world benchmark crude oil staged a modest recovery yesterday after having fallen below $13 a barrel for the first time in five years a day earlier

But traders say weak petroleum demand and ample supply amid warming US weather lead them to believe further price erosion is on the way

London April futures for benchmark Brent Blend of crude oil rose to a high of $13,29 per barrel (42 US gallons), up from Wednesday's close of $12,92, the lowest since 1988

But traders put yesterday's moderate gains down to technical buying after the price plunge on Wednesday rather than to improving demand — Sapa-Reuter

ıcts 21%

Utico set to sell Willards division

MARCIA KLEIN

TOBACCO and snacks groups Utico was expected to sell its Willards snack division by tender, market sources said yesterday.

They said the Willards food division should attract a buyer at about R250m.

It was believed that all the major food groups, excluding Foodcorp which already owns Simba, had shown an interest and would tender BDay 1/3/94

Some of the major groups contacted yesterday said they had no knowledge of the offer, or could not discuss possible acquisitions

Analysts were not sure why Utico would want to sell Willards, or why it would choose to sell it in this way. It was believed that Willards, whose brands include Willards, Big Korn Bites, Cheasnaks, Cheese Curls and Hula Hoops, was profitable and complementary to tobacco

Utico was not in need of funds, but it might have plans requiring it to focus exclusively on tobacco, an analyst said.

The speculation follows a cautionary announcement by Utico in January 198

At the time, analysts believed that because Standard Bank London was included in the cautionary, any deal would have to include Utico's UK-based holding company BAT Industries

In the year to end-December, Utico lifted its earnings 16% to 608c a share on a 5,8% rise in turnover to R606,9m. Utico did not comment separately on the performance of tobacco and snacks

Utico reports severe pressure on total sales

BDay 11/3/94

MARCIA KLEIN

POLITICAL and economic factors would play an important role in the shorter term prospects for tobacco and snacks group Utico, chairman Fred Haslett said in the 1993 annual review

The group, whose brands include Benson & Hedges, JPS, Winston, Willards, Flanagan's and Stimorol, recently reported a 16% growth in attributable profits to R37m on a 5,8% turnover rise to R606,9m in the year to end-December.

Haslett said further changes and opportunities would manifest themselves after the elections

Widespread rains augured well for the agricultural sector, but the turnaround in the economy had not yet benefited the consumer, and there was "little likelihood of a significant improvement in the group's performance" if violence continued.

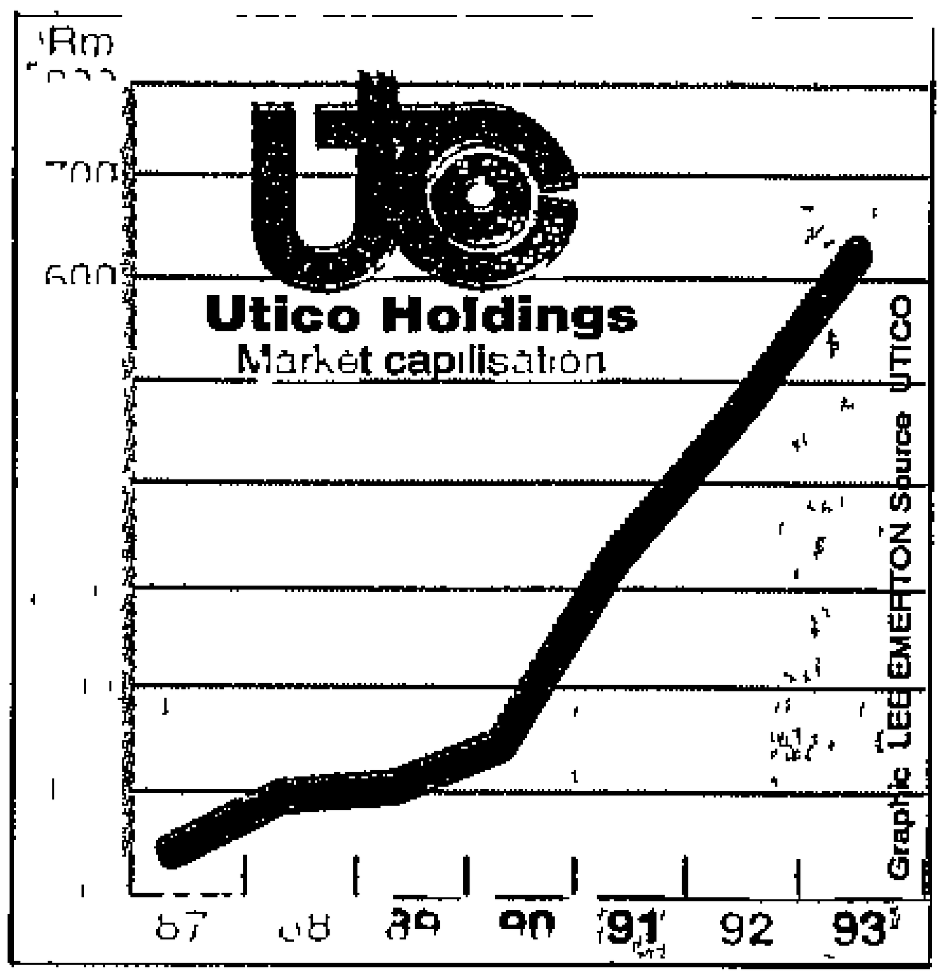
Commenting on the group's performance in the 1993 financial year, Haslett said sales in the second half remained under severe pressure. Despite a lack of real growth in turnover, the operating margin improved and borrowings were reduced. The real growth in attributable profits was well ahead of CPI.

Haslett said the total cigarette market declined marginally in 1993 compared with the previous year, and "considerable competition slightly eroded market share".

New product variants were introduced towards the end of the year, and Haslett said these should have a favourable effect on volumes this year.

Commenting on the Willards Foods division, Haslett said the snack market had been badly affected by unrest and violence. The effect on distribution and promotion, coupled with weak consumer expenditure, made trading conditions difficult.

(198)



Despite these factors, Willards increased market share and report real growth Hula Hoops and the foil-packed Crinkle Cut chips had "proved an outstanding marketing success". The foods division showed "a very satisfactory growth in operating income".

No further information relating to Utico's cautionary announcement on the division was provided, other than that "arrangements remained under consideration", and shareholders would be informed as soon as possible

There is widespread speculation that Utico was looking at selling its Willards Foods division by tender. Market sources said Utico had opted for the tender as there had been a lot of interest in the division

UTICO FM 18/3/94

Still in suspense

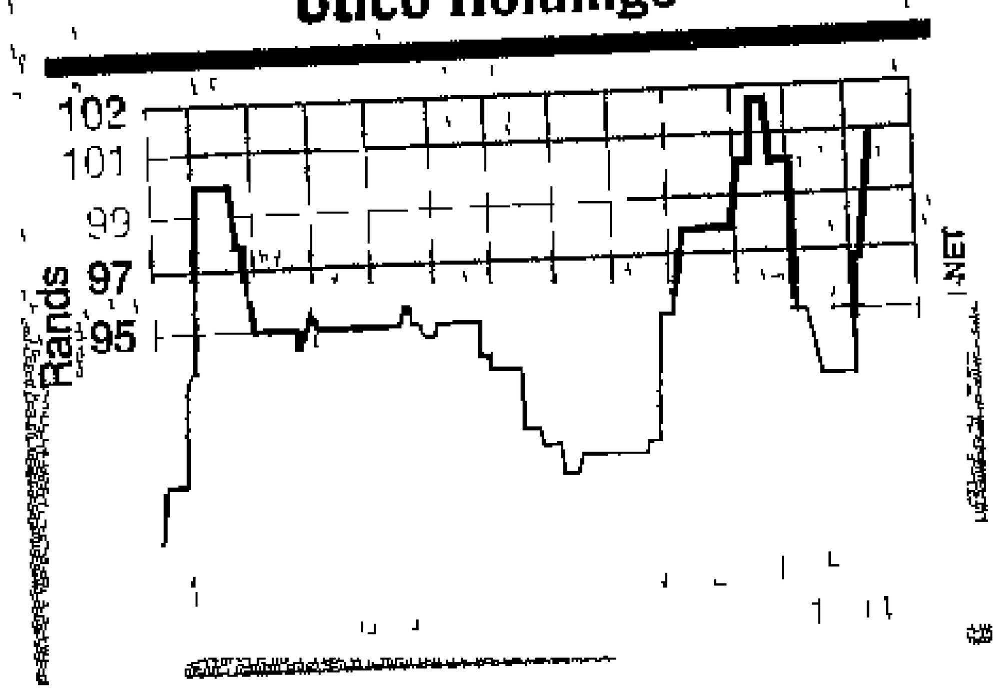
Activities: *Makes and markets cigarettes, tobacco and snack food*
Control: *BAT Industries Plc 63,6%*
Chairman: *F N Haslett, MD D B Edmunds*
Capital structure: *6,1m ords Market capitalisation R616m*
Share market: *Price 10 100c Yields 3,6% on dividend, 6,0% on earnings, p e ratio, 16,6, cover, 1,67 12-month high, 10 200c, low, 8 800c Trading volume last quarter, 74 000 shares*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm)	7,7	5,7	10,5	3,4
LT debt (Rm)	7,9	10,0	12,0	nil
Debt equity ratio	0,15	0,13	0,17	0,02
Shareholders' interest	0,46	0,44	0,45	0,48
Int & leasing cover	16,7	15,8	10,9	29,6
Return on cap (%)	20,3	21,4	21,8	21,6
Turnover (Rm)	440	517	573	607
Pre-int profit (Rm)	46	56	64	68
Pre-int margin (%)	10,4	10,9	11,2	11,2
Earnings (c)	368	466	524	608
Dividends (c)	205	280	314	365
Tangible NAV (c)	1 703	1 920	2 184	2 499

After riding the wave of good fortune for much of the recession, tobacco and snacks group Utico was hard pressed to lift 1993's turnover 5,8% to R606,9m (198)

Despite lower volumes — the tobacco market was down an average 3% in 1993, while the snack market apparently continued to contract — earnings increased 16% to R36,9m The interest bill fell almost two-

Utico Holdings



FM 18/3/94

Utico MD Bruce Edmunds
taking a cautious view

thirds, to R2,3m, and the effective tax rate was 43,9% (45,3%)

The 20% jump in creditors to R104m on the marginal increase in turnover partly explains the reduction in gearing from 17% to 2% It also suggests the decline to this low level is temporary Capex increased 41% to R24,5m but commitments this year are substantially lower Borrowings were cut from R22,5m in 1992 to R3,4m Interest cover increased from 10,9 times to 29,6

Though Utico's performance worsened in the second half of the year, some respite should come from a lower tax rate At operating level, benefits should also flow from capex spent on the United Tobacco modernisation programme But management is taking a cautious view, and in the current economic and political climate is not expecting a significantly better performance

Inadequate disclosure of sales and profits of the two divisions has encouraged wide speculation about the cautionary notice issued by Utico at the end of January In particular, two possibilities are cited first, that Utico is considering selling its Willards snack division, and, second, that UK parent BAT Industries (with a 63% stake) wants to buy out minorities

While Willards' market had been affected by unrest, violence and weak consumer spending, financial director Seville Chonin says the division gained market share and posted real growth thanks to the successful launch of new snack-related products The speculation about the tobacco division is perhaps more plausible In addition to cigarette price increases exceeding inflation, consumers have had to cope with the recession and the hike in Vat Recent ANC warnings about higher excise duties suggest further increases in tobacco prices

An analyst says duties on cigarettes range from 25% to 60% internationally, and the new government could well push local duties up to 40% to raise funds for social spending

(198)

While Rembro's operating margin may be wide enough to absorb the resultant price increases, this may be more difficult for Utico, with an overall margin of 11% Rembro states in its accounts that 30% of its cigarette-related turnover went to duties. In anticipation of a difficult patch, BAT Industries might have opted to increase its stake through a finrand investment

In any event, investors are taking a bullish view The counter has climbed almost 9% to R101 over the past three weeks, just off its annual high The hefty premium to NAV reflects the earnings record, but the recent rerating makes the share expensive

Marylou Greig

Espionage caper costs Sunpak over R1-m

Business Editor

A FORAY into industrial espionage has cost the JSE-listed Holdains subsidiary, Sun Packaging (Sunpak), more than R1 million in legal costs

After being ordered by the Cape Town Supreme Court last year to stop its industrial espionage against a new competitor in the polystyrene packaging business, Altantic Forming, it attempted counter litigation that was settled out of court this week (1996) ARG 23/4/94

The settlement was reached after six days of court argument

In its application to the Cape Town Supreme Court, Sunpak asked the court to prevent Atlantic Forming from using technology of which it claimed ownership.

In a brief joint statement announcing the out-of-court settlement, Sunpak Packaging said it was satisfied that as a result of evidence presented in court Altlantic Forming and its directors were not making use of Sunpak technology and "this litigation is amicably settled."

Both parties agreed to make no further statements However it is understood that Sunpak has agreed to pick up the legal costs of the action It was also ordered by the court to pay for the earlier Atlantic Forming action to stop the industrial espionage

Legal sources said combined legal costs for both cases would cost Sunpak well in excess of R1 million

Sunpak was represented by Messrs Prisman Wilson Chomtz & Goldberg who instructed advocates D Irish SC and P Weyer Atlantic Forming was represented by Mallinick Ress Richman & Closenberg Inc who instructed advocates C Puckrin SC and A Oosthuizen.

WILLARDS/NATIONAL BRANDS

Overspiced meal?

FM 29/4/94

Though management of tobacco and snacks group Utico flatly refuses to say why it sold its Willards Food division, it's probably taking a lead from UK parent BAT Industries' plans to reorganise and focus on its core businesses of tobacco and financial services.

The reason for secrecy is unclear. What is clear is that AVI's unlisted subsidiary National Brands (NBL) paid well above market expectations. For R411m cash — the market believes a more appropriate number would be around R300m — NBL, which embraces names such as Bakers, Becketts, Pakco and Yardley, is believed to have bested other local contenders such as Cadbury Schweppes, Tongaat-Hulett, Tiger Oats and Royal Beech-Nut.

NBL MD John Bryant denies the price is too high. "When valuing a business, it is not sufficient to look at just historical figures Account must be taken of future potential"

Ed Hern director Sydney Vianello estimates Willards is worth around R220m, on earnings potential He believes NBL saw an opportunity to enter an above-average growth sector So it decided that in an environment where there is a scarcity of assets it was worth paying a hefty premium for a company which needs no development and is increasing market share. Benefits will come from SA's tax quirks whereby large sums can be written off trademarks. Willards, with assets of R60m, is estimated to have market share of 38%, somewhat smaller than competitor Simba's 52% or so.

The gearing is unlikely to stretch NBL At financial 1993 year-end, cash of R185m was set against debt just short of R13m Bryant says NBL, unlike Utico, has an international alliance and long-standing relationship with United Biscuits, a leading UK biscuit and snacks company. This, he says, gives access to technological resources NBL being primarily in the fast-moving consumer goods market, there are a number of synergies with Willards which, he says, will enhance its portfolio of dominant brands 198

Utico's snack group sale follows that of its Fresh-Up Juice division to Del Monte in 1992. In financial 1993, Willards contributed an estimated R15m to Utico's earnings and cigarettes the other R21m Gearing at financial 1993 year-end was a negligible 2,2%, giving management flexibility to pay a

FM 29/4/94

special dividend equalling approximately 75% of the cash consideration of R411m

Vianello says the key problem for Utico will be how to remit funds to BAT. Assuming a special dividend of R50 per share, R32 can be taken out through the financial rand, and the rest through the commercial rand, though both will be taxed at 15% Vianello adds that on a share price of R100, remaining earnings of R3,50 per share place Utico on a p.e of 14, slightly below Remgro's 15,1

With Remgro and Utico now more comparable, the question is which investors should be exposed to Market share is traditionally not disclosed and both are in a state of transition Investors may wish to wait until more is known about Utico's tobacco business (198)

Marylou Greig

Rothmans shelves Asian merger plan

(198) CT 14/5/94

LONDON — Rothmans International has bowed to shareholder pressure and shelved plans to merge its Asian operations

The tobacco group wanted to create a regional holding company for its Singapore and Malaysian businesses and refloat the combined operation on the three exchanges

Rothmans planned to build a united force in the battle for a share of the massive Asian cigarette market, but the merger was unexpectedly rejected by Malaysian shareholders last January

Rothmans tried to revive the scheme and embarked on a round of talks to win support but yesterday's announcement signalled that it had failed

Rothmans said there were no immediate prospects of reviving the proposals, Jan du Plessis, finance director, said "We discussed with institutions the issues involved and concluded that we could not progress with the proposals" He said no specific alternative scheme was put to the shareholders

He rejected suggestions that Rothmans' Asian plans had been thrown into disarray

Last year Rothmans completed a restructuring under which it shed its luxury goods businesses and became exclusively a tobacco company Analysts said a reorganisation to focus on the Asian market had been important to the new strategy

Star 19/5/94

Price of cigarettes may double, says ANC team

ANC health advisers suggested yesterday that the Government double the price of cigarettes to cut down on tobacco consumption and reduce the health hazard

The government has yet to consider the recommendation

"Additional revenue can be derived immediately by increasing the excise on tobacco, which will have an added benefit of reducing consumption," said a statement by the ANC health department

An official, Kami Chetty, said details had not been worked out, but the price of cigarettes could double (198)

The recommendation on tobacco tax was presented as part of the national health plan sent to Health Minister Nkosazana Zuma earlier yesterday

South Africa grows much of its own tobacco

Current prices are relatively low Sapa-Reuter

Higher cigarette, liquor taxes 'will mean less revenue'

EDWARD WEST and MARCIA KLEIN

PROPOSED increases in taxes on liquor and cigarettes would not neccesarily increase government revenue but could seriously harm employment, industry sources said yesterday BIDAY 20|5|94

News of the ANC's health plans, released on Wednesday, saw Rembrandt Controlling Investments drop 26% or 600c a share to close at R17 on the JSE yesterday. Subsidiary Remgro lost 5,5% or 175c to close at R30 and KWV lost 2,6% or 25c to 950c But tobacco group Utico's share held steady at R120, while those of SA Breweries (SAB) rose marginally to R99

The plans included the possibility of lifting taxes on these products by as much as 100% (198)

The Tobacco Institute said doubling taxes on cigarettes would lower consumption and trigger job losses at farming and manufacturing levels

Sapa reports the Tobacco Action Group welcomed a higher tax on cigarettes. It said a R1 increase in the price of 20 cigarettes would raise about R1bn extra in tax annually as well as reduce the number of smokers by 1-million. The hike would also contribute to improving the health of South Africans by discouraging smoking

The Medical Research Council had estimated that a R1 increase would eventually result in 250 000 fewer premature deaths from smoking-related diseases

SA's current cigarette taxes were among the lowest in the world Taxes made up 38% of the retail price of cigarettes in SA, compared with 86% in Denmark, 76% in the UK and 73% in Germany

The KWV said excise duties on wine products directly affected the income of rural communities in the Western Cape A radical increase in duties would affect 300 000 people on farms, local small businesses and job opportunities in auxiliary industries and businesses Increasing duties did not necessarily increase revenue as this could result in lower consumption by moderate consumers

SAB public affairs manager Adrian Botha said SAB supported the need for reconstruction and development, and accepted that excise duty was a means of raising revenue But a doubling of tax on alcohol would affect revenue and not necessarily reduce alcohol abuse.

A major excise hike had a severe effect on sales, and "leads to diminishing returns, with government ending up with less revenue than before the increase".

SAB's beer division already made "a considerable contribution to government revenue and provides nearly twice the revenue of the entire SA mining industry." It was important "to carefully consider any action which could lead to the killing of the golden goose"

There would also be the added danger of encouraging illegal trade in liquor, Botha said

A Utico spokesman said it was difficult to comment as there was no definite proposal on the table, and no specific increases mentioned Excessive taxes in Canada had led to a drop in the official consumption figure, but resulted in such large-scale smuggling that government consequently reduced taxes

Tobacco and beer barons fuming

Star 20/5/94

■ BY SHIRLEY WOODGATE

ANC plans to help fund its R12 billion health-care budget and cut tobacco and liquor consumption by doubling taxes have been condemned outright by both industries (198)

The National Council Against Smoking (NCAS) welcomed the move, but the Tobacco Institute of SA said a large price increase leading to a cutback in smoking would trigger massive job losses in farming and manufacturing.

Spokesman John Groenewald said a similar experience in tobacco control in Canada had failed because smokers had resorted to contraband cigarettes

NCAS executive director Dr Yussuf Salojee said South Africa's tobacco tax of 38 percent was small compared with Denmark's 86 percent and the UK's 76 percent. Current government income from tobacco taxes was R1 552 million, he said

South African Breweries said increasing tax to finance health, and using the price rise to combat alcohol and liquor abuse, were contradictory

Illegal trade

SAB public affairs manager Adrian Botha said any move to push up the price of liquor would automatically reduce sales

"Increased prices do not affect alcohol abusers, only moderate drinkers. The abuser simply spends more on drink or goes to home brews A significant price increase will boost illegal trade"

Botha said SAB provided almost twice the revenue generated by the mining industry

Sapa reports that a R1 increase in the price of a packet of 20 cigarettes would not only raise about R1 billion extra in tax annually but would also reduce the number of smokers by a million, the Tobacco Action Group (TAG) said yesterday.

TAG is a pressure group representing the Heart Foundation of Southern Africa, the Cancer Association and the NCAS

The Medical Research Council has estimated that a R1 increase would eventually result in 250 000 fewer deaths from smoking-related diseases

'Alcohol, tobacco tax will cost jobs in Western Cape'

(198) ARG 20/5/94

□ Kriel joins outcry, says thousands will be out of work

Staff Reporters and Sapa

WESTERN Cape premier Hernus Kriel says the African National Congress proposal to double the tax on alcohol and tobacco will cause the loss of thousands of jobs in the province.

He said the increase in taxes would slash profit margins and cause retrenchments among the almost 300 000 people directly dependent for their living on the wine industry.

In Oudtshoorn, tobacco was a vital part of "an otherwise precarious agricultural industry"

The Small Farmers Development Corporation had recently started encouraging black farmers to cultivate tobacco

"I call on central government not to consider this recommendation It is in any case not in line with election promises about more jobs for the people," Mr Kriel said

The proposal has been slated by South African Breweries and the Tobacco Institute of South Africa, but welcomed by the anti-smoking lobby

South African Breweries said the plan would "kill the golden goose" and have a negative impact on both revenue and alcohol abuse.

The Tobacco Institute of South Africa, representing the industry, said a big rise in price would lead to a fall in tobacco consumption and consequently a loss of jobs in the farming and manufacturing sectors.

But the Tobacco Action Group, an anti-smoking lobby, has welcomed the announcement and said the plan would improve the health of South Africans

And Cape Town's medical officer of health Michael Popkiss has welcomed the government's proposed new tax on tobacco products

Government revenue would be increased and tobacco consumption would drop, he said

In an announcement yesterday the government said it intended increasing the tax on cigarettes and alcohol by as much as 100 percent to pay for an ambitious new health plan based on primary health care

SAB spokesman Adrian Botha said the SAB had made submissions to the ANC on the issue some time ago.

History had shown that a major excise increase hit sales badly which resulted in the government receiving less revenue than before the increase

Because the beer division of SAB provided "twice the amount of revenue" generated by the entire South African mining industry, it was imperative to "carefully consider any action which would lead to the killing of the golden goose".

The Tobacco Institute said higher prices did not necessarily mean lower consumption

They referred to experience in Canada, when "excessive" tobacco taxes caused a drop in official cigarette sale statistics.

But large-scale smuggling at much cheaper prices followed, "creating social and financial problems for the Canadian government.

"In February this year drastic and immediate cuts in cigarette taxes were announced by the Canadian prime minister"

But the Tobacco Action Group disagreed

Experience in many countries had demonstrated that the price of tobacco was perhaps the single largest factor in influencing short-term patterns of tobacco use

"More importantly, high prices play a large role in deterring young people from starting to smoke On average, a 10 percent price increase will result in a five percent fall in adult cigarette consumption but will cut teenage consumption by 12 to 15 percent"

Star 21/5/94

Toxic waste: SA acts

SCIENCE WRITER

SOUTH Africa had acceded to the international Basel Convention for the control of hazardous waste on May 5, the Minister of Environment, Dr Dawie de Villiers, announced yesterday

This commits the country to a programme of action aimed at limiting, and ultimately eliminating, the production of hazardous waste

The convention also dictates strict controls over trans-boundary movement of hazardous waste.

Referring to this, De Villiers said it had long been the policy of the Government that no hazardous waste from other countries would be allowed into South Africa for dumping "It is my intention to continue with stern observance of this policy

"South Africa is now ready and committed to make its contribution together with the international community in handling global problems related to hazardous waste," the Minister said

Tobacco tax 'will hit jobs'

THOUSANDS of jobs will be in jeopardy if an ANC proposal for higher taxes on cigarettes is implemented, Tobacco Exchange chairman Fanie de Kock said yesterday

"The primary tobacco industry is experiencing unprecedented financial pressure as a result of prolonged drought, recessionary conditions and unrealistically low world tobacco prices," he said in a statement

"The number of producers has almost halved in the past seven years and the industry finds itself in a life-or-death situation"

De Kock said the industry would not be able to cope with a slump in tobacco leaf sales caused by a rise in taxes, and there would be large-scale retrenchment

"At present 37 000 people are employed in the primary tobacco industry, of whom most are in rural areas In the districts where tobacco is cultivated the industry represents about 30 percent of economic activity' A further blow to the industry would be catastrophic, he warned

(198)

"In view of the employment opportunities involved, in a country where 40 percent of the economically active population is unemployed, the Tobacco Exchange earnestly appeals to the Government not to accept the increase proposed by the health advisers"

In the longer term, a rise in taxes on cigarettes would reduce Treasury revenue, De Kock added — Sapa.

Focus on Business

Bad news for smokers, drinkers in Budget

Sowetan 26/5/94

■ MAJOR VICTIMS Tax on tobacco and booze will supplement national income:

Derek Keys is likely to bring bad news to smokers next month.

By Mzimkulu Malunga

TOBACCO SMOKERS AND THE liquor drinkers are likely to be among the major victims of the forthcoming national Budget

Sanlam's chief economist, Mr Johan Louw, believes the Government will announce higher duties on tobacco and liquor when Finance Minister Mr Derek Keys presents the Budget on June 22

Louw says though South Africans can expect a "normal" Budget, the expenditure side is likely to be restructured to put more emphasis on social spending

However, he says the Government would not go on a spending spree because there is very little room to manoeuvre as the Budget is already tight

"We believe that the Budget proposals will have largely neutral or a slightly stimulating effect on the economy The capital market should be able to accommodate the borrowing requirements of the government with ease," he says

(198)

Tax relief for the lower and middle income groups is also a possibility, says Louw, adding that certain basic foodstuffs could also be exempted from VAT in order to lessen its effect on the poor

The Government is also likely to issue reconstruction bonds as another avenue to finance the Reconstruction and Development Programme, he says

Bonds are a means by which governments borrow money from the general public to raise extra cash If a person buys a government bond he is given a guaranteed note promising to pay the money back after three months.

While the advent of the new Government coincides with an economic upswing, there is still concern about low levels of foreign reserves and money leaving the country, he says

This situation could be reversed if the Government is perceived to be following correct economic policies by the outside world

Health Minister targets cigarette adverts

BDay 27/5/94

KATHRYN STRACHAN

REGULATIONS stipulating stronger health warnings on cigarette advertisements were expected to be announced within days by Health Minister Nkosazana Zuma, sources said yesterday

Under the new regulations, the tobacco industry would have to include in its advertisements explicit information on the hazards of smoking Several hard-hitting slogans to be displayed on adverts were being drawn up to replace the current vague references on the effects of smoking

National Council Against Smoking director Yusuf Saloojee said the Health Minister had made an encouraging start by announcing plans to increase tobacco taxes and to ban smoking in public places

However, the tobacco industry spent R205m promoting smoking in SA, compared with the state's budget of R25m for all issues of health education (198)

The World Health Organisation (WHO) said in the run-up to World No-Tobacco Day on Monday that the tobacco industry was increasingly targeting developing countries in its marketing to make up for the decline in smoking in First World countries Developing countries were targeted because factors such as increased purchasing power, women's emancipation and urbanisation induced more people to smoke

WHO's theme this year is The Media and Tobacco, dealing with pressures on the media from the tobacco industry

Tobacco giants hit back at 'total onslaught' on ads

WILLEM STEENKAMP (198)
Weekend Argus Reporter

ARG 4/6/94

DRAFT regulations for mandatory, prominent and explicit health warnings on tobacco products and advertisements which were gazetted yesterday, have come under fire from the industry

Fanie de Kock, chairman of the Tobacco Exchange, said he objected strongly to the draft regulations on behalf of the quarter million people in agriculture who were dependent on tobacco for their livelihood

He said the regulations represented an onslaught against one of the oldest agricultural sectors in the country — one which had made a proud contribution to agricultural development and rural job creation in South Africa

Mr de Kock said the draft regulations came at a point when the industry was experiencing a difficult phase due to drought

The regulations could cause a severe setback for tobacco farmers and their farm workers in at least five provinces," said Mr De Kock.

Joppie Graham, chairman of the Tabacco Institute of Southern Africa agreed He said the regulations were being studied by the tobacco industry, but first impressions were that they were Draconian and restrictive

Mr Graham said if the regulations were adopted it would be impossible for the tobacco industry to continue advertising trademarks in the media.

He said it appeared as if the strategy was to compel the tabacco industry to cease advertising by means of this "de facto advertising ban".

If the tobacco industry was forced to stop advertising, thousands of jobs would be threatened in the advertising industry and the media, he said

Tobacco products already carried an inconspicuous warning that smoking was a "health risk", but this was agreed between the health department and tobacco companies and was not law.

The new warnings would take up at least a quarter of the space on the front of cigarette packets, and half the back.

The Tobacco Action Group (TAG), a coalition of several anti-smoking groups, said the changes in labelling would give consumers better information about the health hazards of smoking.

Last month, the African National Congress proposed the government double the price of cigarettes to cut down on tobacco consumption and reduce health risks

TAG said the series of 11 new warnings consisted of two parts The first part included messages such as "Danger Smoking can kill you" and "Pregnant? Breast-feeding? Your smoking can harm your baby"

The second part of the warning explained how smoking increased health risks and gave a telephone number where smokers who wanted to quit could get more information.

In written or visual advertisements the first warning would be at the top of the advertisement and occupy nine percent of the display surface The second part would be at the bottom and occupy 15 percent of the advert.

Tougher tobacco warnings

Star 4/6/94

SAPA and OWN CORRESPONDENT

CAPE TOWN — Draft regulations for mandatory and explicit health warnings on tobacco products and advertisements, including one that says "Smoking can kill you", were published in the Government Gazette yesterday.

Interested parties have three months to comment on the draft regulations that are framed under the Tobacco Products Control Act passed by Parliament last year.

Tobacco products already carry an inconspicuous warning that smoking is a "health risk", but this is the result of an agreement between the Health Department and tobacco companies, not of a law.

The new warnings will take up at least a quarter of the space on the front of cigarette packets, and half the back.

A spokesman for the Health Department said anyone wanting to comment on the regulations should write to the Director-General of National Health, Private Bag X828, Pretoria 0001.

Tobacco Institute of South Africa chairman Joppie Graham responded to the envisaged regulations by saying they were "draconian and restrictive in nature".

Graham said that if the regulations were adopted it would be impossible for the tobacco industry to continue promoting trademarks by way of media advertising.

(198)

Development role for ANC

WHEN ANC provincial leader Jacob Zuma took the oath of office as Minister of Economic Affairs and Tourism this week, it meant more than simply resolving the provincial cabinet crisis.

It also gave his party the key role in overseeing the reconstruction and development programme in the region, and it was the third portfolio offered to Mr Zuma. Previously, he had been offered the welfare portfolio and then public works.

The ANC now has three provincial cabinet portfolios: economic affairs and tourism, health, and roads and traffic control.

The Inkatha-ANC deal also involves IFP backing for a provincial request that central government approve deputy cabinet ministers in portfolios where necessary.

At present the constitution does not make provision for provincial deputy ministers, nor does it specifically outlaw them. Central government has undertaken to consider the request and a further meeting on the issue is likely in about 10 days.

The deal between the ANC and Inkatha focuses on the police portfolio in particular. According to sources close to the talks, the IFP agreed that if Pretoria approved deputy ministers, the ANC would take the deputy police post.

It is likely that the ANC will also put up a strong case for the deputy education position.

Rush to get free health-care plan under way

S Times 5/6/94

By CAS St LEGER

THE NEW government's health plan is being introduced at break-neck speed.

And, only days after free health care for pregnant women and children under six was launched at a cost of R77-million to taxpayers, the government is also considering free medical treatment for pensioners.

The scheme is restricted to patients without medical aid.

The introduction this week of free medical care for children and pregnant women caught many hospital administrations by surprise.

"Administrations were asked to implement the project by June 1," said the Department of Health's deputy director-general, Dr Hans Steyn.

But, said Dr Steyn, such short notice meant that not all hospital superintendents were fully aware of the project, and some hospitals continued to charge patients who would otherwise have qualified for free treatment.

Dr Steyn said the total loss of income to the old provinces would be about R77-million — about one percent of their budgets.

He said private hospitals have indicated they would like to join the free health-care scheme on a contractual basis.

No decision taken on Thor Chemicals

THE Minister of Environment Affairs has not yet decided on what course of action to take regarding evidence of alleged malpractice by British multinational Thor Chemicals.

Minister Dawie de Villiers confirmed he was studying ANC proposals for a commission of inquiry, but added the issue was "very complex" and had to be thoroughly studied before any decisions could be taken. He also pointed out other ministries and departments were involved in the laws which had allegedly been transgressed.

TOUGH NEW RULES ON TOBACCO ADVERTISING

S Times 5/6/94

By CAS St LEGER

THE first salvo in the anti-cigarette war was launched this week with the gazetting of stringent regulations governing the labelling and advertising of tobacco products.

The new rules, under the Tobacco Products Control Act, would require tobacco companies to include explicit health warnings on cigarette packets and in radio and print advertisements.

The proposals have been called draconian by the Tobacco Institute of Southern Africa.

There are 11 new warnings. They include messages like.

- Danger. smoking can kill you,
- Danger: smoking causes cancer;
- Pregnant? Breast-feeding? Your smoking can harm your baby.

A longer second warning must also be included. This would explain how smoking increases health risks, emphasise the benefits of quitting and give a phone number where smokers can get more information.

Similar warnings must be included in cinema advertisements. (198)

The Tobacco Action Group said it considered the new initiative to be a crucial part of informed comment reflecting a serious government commitment to reducing tobacco use in South Africa.

Mr Joppie Graham, chairman of the Tobacco Institute, said "First impressions of the envisaged regulations concerning warnings on advertisements are that they are draconian and restrictive in nature."

If the regulations were adopted it would be impossible for the tobacco industry to continue promoting trademarks by way of advertising.

"In the light of various representations for an advertising ban by anti-smoking groups, it appears that the strategy is to compel the tobacco industry to cease advertising."

This held serious implications for consumers' rights to take informed decisions and would threaten thousands of jobs in advertising and media

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Tobacco industry rejects draft laws

Star 6/6/94

OWN CORRESPONDENT

Cape Town — Draft regulations for mandatory, prominent and explicit health warnings on tobacco products and advertisements have come under fire from the industry.

Fanie de Kock, of the Tobacco Exchange, said he objected to the draft regulations on behalf of people in agriculture He said they came at a time when the industry was experiencing a difficult time

Joppie Graham of the Tobacco Institute of Southern Africa said the regulations were currently being studied by the industry But first impressions were that they were draconian If they were adopted it would be impossible for the industry to continue promoting trademarks by advertising

It appeared as if the strategy was to compel the industry to stop advertising by means of this "de facto advertising ban", he said

Interested parties have three months to comment on the draft regulations Tobacco products already carry a warning that smoking is a "health risk" The new warnings will take up at least a quarter of the space on the front of packets, and half the back

(198)

The Tobacco Action Group said the changes would give consumers better information. It said the warnings consisted of two parts

The first was concise and included messages such as "Danger Smoking can kill you" and "Pregnant? Breastfeeding? Your smoking can harm your baby" The second explained how and why smoking increased health risks and gave a telephone number where smokers who wanted to quit could get more information

Tobacco industry fumes at proposals

B Day 6/6/94

KATHRYN STRACHAN

THE tobacco industry on Friday attacked proposed new regulations on the labelling and advertising of tobacco products as being draconian and restrictive

The proposed new regulations stipulate that hard-hitting messages, such as "Danger smoking can kill you" be displayed on the advertisements and that health warning displays and advertisements on packages be more prominent

In print advertisements, 25% of the display would have to be allocated to the health warning

The Tobacco Institute, whose views were supported by Utico and Rembrandt, said if the proposed regulations were adopted it would be impossible for the tobacco industry to continue promoting trademarks by way of media advertising

Tobacco Institute chairman Joppie Graham said in the light of representations for an advertising ban by anti-smoking groups, it appeared that the strategy was to compel the industry to cease advertising "by means of this de facto ban"

He said the move would threaten "thousands of jobs" in the advertising industry and the media

National Council Against Smoking director Yusuf Saloojee said this was the "usual knee-jerk reaction from the industry every time tobacco control measures are proposed"

The industry never produced specific figures for the number of jobs at risk, he said Saloojee cited the example of the SABC, which had experienced no staff cutbacks as the result of its decision not to accept tobacco advertising

(198)

Saloojee said the council welcomed the proposed regulations as an important part of the process of informed choice It showed government's commitment to reducing cancer and heart disease by informing people of the dangers of smoking

He added the health warnings were in line with regulations in countries such as Canada and Australia

TML sales GM Terence Parnell said the proposed regulations "were an infringement of the right to freedom of speech" Forcing the tobacco industry to allocate 25% of the display to the demerits of a legal product was "excessive", he said

Lion Match lifts earnings, and expects more growth

B/Day 8/6/94

MARCIA KLEIN

SA Breweries subsidiary Lion Match, which is sitting with substantial cash resources and the prospect of a growing economy, was expected to increase earnings in financial 1995, chairman Laurie van der Watt said in the annual review

Lion, which has interests in matches and other consumer products, lifted its earnings 32% to 44,8c a share in the year to March on a marginal turnover rise

Van der Watt said Lion had managed to perform well in difficult conditions This, together with net cash reserves of R167,2m, should enable it to show "a satisfactory increase" in earnings in financial 1995

Capex of R7,1m — which would be funded from cash flow from operations — would be spent largely in the core lights division. Net cash reserves were expected to increase further.

(198)

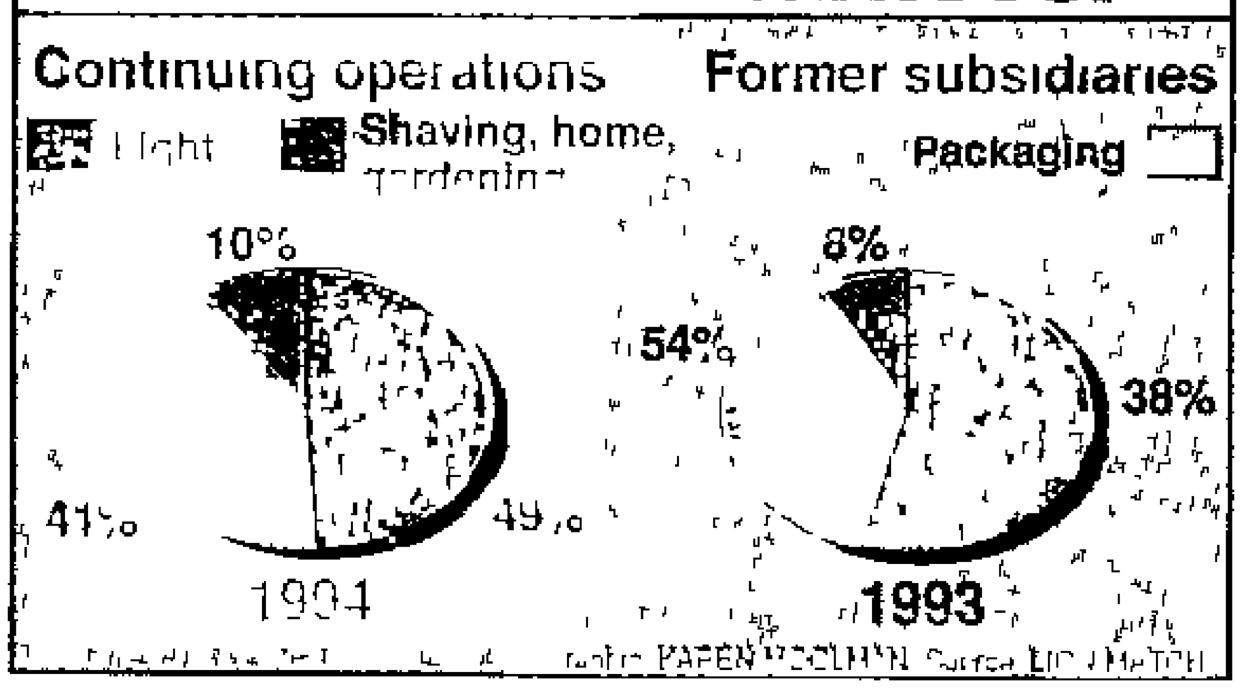
Van der Watt said Lion would focus on exports, tighter cost controls and continued strict asset management

MD Ted Turner said match sales volumes were in line with those last year, mainly due to a 61% boost in the sales value of exports. But competitive pricing saw the lights division's trading profit decline marginally

Disposable lighter sales volumes dropped 9%, as it lost market share with its French-sourced brands losing out to the Far East The French range has been discontinued, and replaced with competitive products from Germany

Wilkinson Lion Consumer Products division maintained its share Sales were 5,2% lower than in the previous year, and margins had to be reduced under highly competitive conditions

Lion Match turnover



Turner said although packaging division Interpak, which was disposed of in November for R203,5m, had excellent expansion prospects and profit potential, shareholders' value was maximised by the sale

Equity accounted Amalgamated Appliances, on the other hand, continued to trade at a substantial loss with little prospect of a turnaround Lion decided to dispose of its interests for no consideration

Cash resources of R186,1m after the disposals would be used "in the most appropriate manner"

Meaningful growth in private consumption expenditure was not expected until the second half of 1994 Nevertheless, development of local and export markets would see Lion increase earnings and cash flow from operations

Budget nerves force Remgro shares down

BDay 8/6/94

MARCIA KLEIN

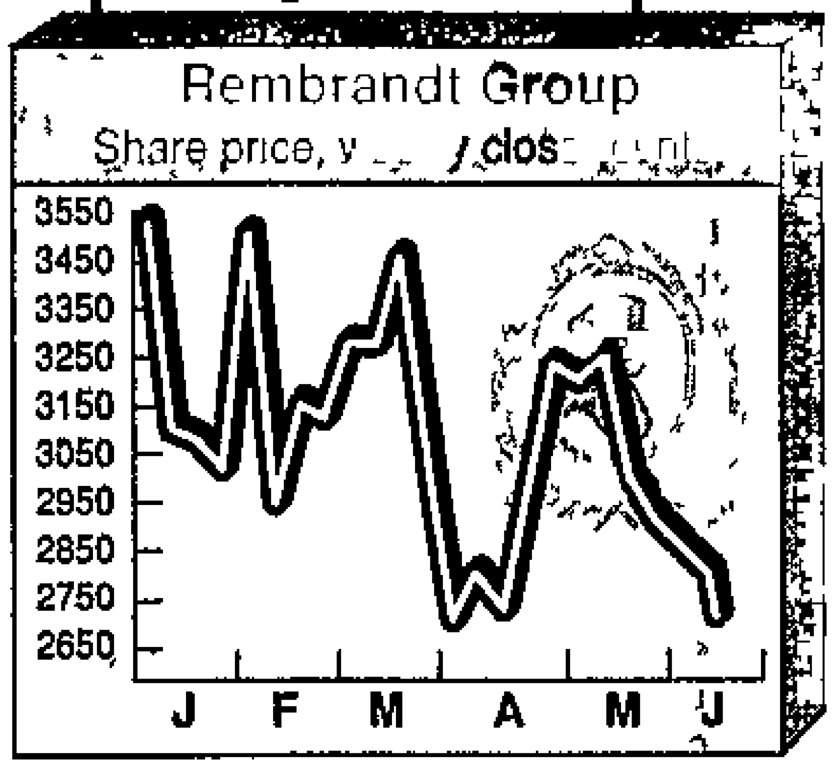
FEARS of what the Budget might hold, and of other government intervention in the tobacco industry, have driven the Rembrandt Group (Remgro) share downward since the beginning of the year despite expectations of an earnings growth of about 17% for the year to March.

Analysts said yesterday that pressure on the share price, which saw it continue the trend of the past few months and lose 75c or 2,6% to close yesterday at R27,25, was harsh in the light of Remgro's earnings prospects. The share was trading at a high of R36,75 in January.

Tobacco volumes were down on the previous year, but Remgro was expected to benefit from lower taxation in the core trademarks (largely tobacco and liquor) division.

Results from its numerous interests — which include mining, industrial and financial services — would be mixed.

In February, Remgro increased its final dividend by 20% to 26,4c, bringing the full year dividend up similarly to 43,44c. The dividend declaration, always a few months before publication of results, indicated what could be expected from the group.



At the September interim stage, Remgro raised net income by 17% to R530,8m. Directors said at the time that results were not evenly distributed throughout the year, but some analysts said they have revised their forecasts slightly lower. This was because some results from listed subsidiaries were not quite as good as expected.

(198)

Apart from lower taxation, Remgro was also expected to benefit from an increase in interest on cash — it has significant cash resources.

An analyst said that the Budget was obviously important for Remgro. Current excise duty on tobacco was 22%. Although there were good margins on tobacco sales, Remgro would not be able to absorb the full effect of increased duties.

If the cost of cigarettes became prohibitive, reduced demand could result in much lower volumes.

Tobacco industry's ad threat

198 ARG 8/6/94

Business Editor

THE tobacco industry is threatening to withdraw all media advertising if the government goes ahead with new anti-smoking regulations to force it to carry health warnings in advertisements.

Commenting on draft legislation on cigarette advertising, the chairman of the Tobacco Institute of Southern Africa, Joppie Graham, said the proposed measures were "draconian and restrictive"

He said the regulations amounted to a *de facto* ban on tobacco advertising.

Mr Graham said this would "not only hold serious implications for the consumer's right to take informed decisions about a legal product, but would also threaten thousands of jobs in the advertising industry and the media"

If the regulations were adopted it would be impossible for the tobacco industry to continue promoting trademarks by way of media advertising

Mr Graham blamed the situation on "various representations" by anti-smoking groups

Rembrandt lifts earnings

Star 9/6/94

Cape Town — Rembrandt increased attributable income by 10,3 percent from 182,1c to 200,9c a share in the year to March

Earnings — excluding retained income of associated companies — increased by 19,9 percent from 139,5c to 167,3c per share

Net income before tax increased by 6,4 percent from R1252,8 million to R1333,4 million

As a result of the decrease in the company tax rate from 48 percent to 40 percent and the introduction of a 15 percent secondary tax on companies, tax decreased from R478,1 million to R408,8 million.

Net taxed income increased by 19,3 percent from R774,7 million to R924,6 million As a result of the decrease in the share of net income retained by associated companies and an increase in the income attributable to other members, the increase in total earnings was 10,3 percent

Extraordinary items not included in net income from normal business operations amounted to R15,6 million unfavourable (1993 R36,9 million favourable)

Ordinary dividends increased by 20 percent from 36,2c to 43,44c per share and are covered 4,6 (1993 5) times by total earnings and 3,8 (1993 3,8) times by cash earnings (198)(232)

A special dividend of 14,52c per share was paid in October 1993.

Rembrandt Controlling Investments reported net earnings of R535,6 million (1993 R485,5 million)

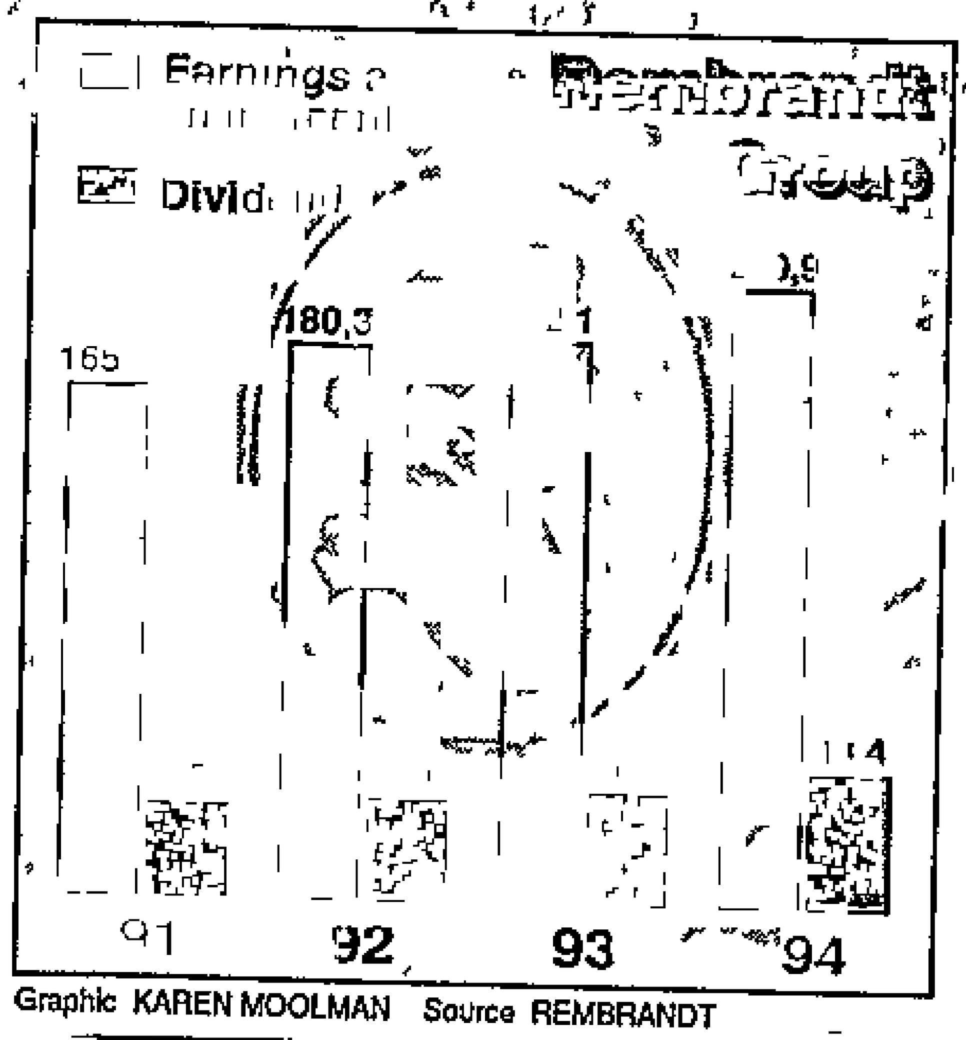
Earnings per share were 148,8c (134,9c) A final dividend of 19,55 cents has been declared which, with the interim of 12,61c, makes a total of 32,16c.

A special dividend of 10,75c is being paid

Technical and Industrial Investments had a net income of R182,6 million (1993 R165,7 million) Earnings per share were 138,3c (1993 125,5c) A final dividend of 18,19c has been declared which, with the interim of 11,73c, makes 29,92c for the year. A special dividend of 10c is being paid — Sapa

Remgro below expectations

BDay



Graphic KAREN MOOLMAN Source REMBRANDT

EDWARD WEST

CAPE TOWN — The Rembrandt Group's (Remgro) attributable profit from normal business operations — most of it tobacco related — increased a solid, but below expectation, 10,3% to 200,9c (182,1c) a share in the year to end-March 9/6/94

Figures were restated As a result of a change in accounting policy, subsidiary Huntcor accounted for its interest in HL&H Timber Holdings on a proportionate consolidation basis This interest was previously equity accounted (198)

Earnings, excluding the share of retained income of associate companies, increased 19,9% to 167,3c (139,5c) a share

To Page 2

Remgro

BDay 9/6/94

From Page 1

Pre-tax income was 6,4% higher at R1,33bn (R1,25bn), but earnings were boosted by the lower tax rate and secondary tax on companies — which lowered tax to R408,8m (R478,1m). Taxed profit was 19,3% up at R924,6m (R774,7m) (198)

As a result of the decrease in the share of net income retained by associate companies and an increase in the income attributable to other members, the earnings increase amounted to 10,3%. Analysts had estimated the increase to be close to 20%, in line with the dividend payout.

An extraordinary cost of R15,6m was reported, but the group did not provide details, and its directors could not be reached for comment.

The only statement made by Rembrandt on its prospects was a "no comment" on the possible effects of the mooted higher tobacco excise.

After Gencor was unbundled in September, Rembrandt's interest in the unbundled companies was Gencor 13,8%, Engen 6,8%, Sappi 5,1% and Malbak 7%. These interests were not equity accounted.

If these, as well as W&A Gilbey — which was no longer classified as an associate — were equity accounted for the full financial year, earnings would have risen to 206,1c (200,9c) a share, the group said.

Earnings for Rembrandt Controlling Investments, which has a 51,1% stake in Remgro, were 148,8c (134,9c) Earnings excluding the share of income retained by associates came to 123,9c (103,3c).

Technical Investment Corporation, which through its investment in Rembrandt Controlling Investments has a 20,7% stake in Remgro, reported earnings a share of 130,56c (118,42c).

After the share of net income retained by associates was excluded, earnings were 108,75 (90,72c).

Technical & Industrial Investments, which had an effective 17,4% interest in Remgro, produced earnings from normal business operations of 138,3c (125,5c).

TOBACCO ADVERTISING

FM 10/6/94

Consider yourself warned

Could government end up stopping tobacco advertising without having to ban it? Tobacco Institute of Southern Africa chairman Joppie Graham believes so He says the regulations published in last week's *Government Gazette* would make it impossible for the industry to continue promoting trademarks through media advertising

The requirements in the proposed legislation are certainly more onerous than in many other countries Advertisers would have to fill 25% of the area of print ads, for example, and 25% of the duration of a radio ad with health warnings. Warnings on cigarette and tobacco packs would have to cover a quarter of the front of the pack, half of the back and half of one side.

There's no equivocation about the warnings They would have to say things such as "Danger· Smoking can kill you" or "Danger. Smoking causes cancer " These declarations would have to be accompanied by detailed explanations of how it harms you and give a toll-free "quit line" number for people to phone (198)

But would they work? Gordon Muller, media director of ad agency Saatchi & Saatchi, Klerck & Barrett, which handles advertising for the Rembrandt Group's Transatlantic Tobacco, says he does not believe the requirement to carry health warnings need inhibit tobacco advertising "It doesn't take long for people to filter out the message. Those who are predisposed to smoke will stop seeing the communication after a while "

He believes the proposal for raising taxes on tobacco products carries much more danger for the industry. "If that happens, the industry will need to increase its advertising to counteract the effect of higher prices on cigarettes "

Canadian think-tank Niagara Institute's recent book *Do tobacco advertising bans really work?* cites studies showing that consumption has fallen in many countries where tobacco advertising is allowed with health warnings By contrast, there have been small increases in all OECD countries that banned tobacco advertising.

One possible reason for the consumption pattern is that imposing the health warnings makes the tobacco industry advertise the dangers of smoking with the attractions ■

Lion Match learns from parent SAB

Star 13/6/94

■ BY DES PARKER

Durban — The influence of SA Breweries on subsidiary Lion Match grows stronger by the year.

It can be seen not only in the boardroom, where now all but one of the directors is a Breweries appointment, but in the methods used to counter competition.

The Durban group, controlled by SAB since July 1987, notes in its 1993 annual report the threat both from imported match brands and from the product of a new local manufacturer. (198)

So, like big brother SAB would do in the beer market when competitors strike up, Lion Match created a new brand of matches called Zebra

'Eureka,' the customer's already widened choice is widened still further and chances are, he or she will end up buying good old Lion matches disguised as Zebras — stripe a light!

Chairman Laurie van der Watt writes that with a growing cash stockpile (a net R167,2 million at the end of 1993), and the economy on the mend, Lion Match expects earnings to rise in the 12 months to next March

Cash features strongly in the report. Van der Watt says the capital expenditure of R7,1 million, earmarked for spending in the lights division (matches and lighters), will be funded from cash generated from all divisions

MD Ted Turner says the group maintained match sales volumes last year in the face of new competition by a 61 percent boost in export turnover Tough pricing conditions meant trading profits declined R1 million to R22,4 million

Also to feel the heat were disposable lighter, with volumes dropping 9 percent The group has replaced its French-sourced supply with "more competitive" German lighters

Turner inadvertently points to the reason for trying conditions in its shaving products division when he notes little real growth in the SA market for razors and related goods.

Lion generated R186,1 million last year from selling its Interpak packaging division and Amalgamated Appliances The cash will be used in an appropriate manner, says Turner

The group expects to increase earnings and cash flow in the current year, despite no expected improvement in private consumption spending until late 1994

REMBRANDT FM 17/6/94

Counting smoke rings

There appears to be a discrepancy between Rembrandt Group's 20% dividend increase — announced in February — and the pedestrian 10,3% growth in EPS from normal, mainly tobacco, business operations Could this be explained largely by considerably reduced profitability in tobacco interests over the second half of the financial year?

MD Thys Visser says this is not necessarily so Comparing halves can be misleading, he says, due to the timing of price increases Also, he says Rembrandt has not yet seen any evidence of increased consumer spending, so it is wrong to assume the tobacco interests saw any additional benefit from the early signs of economic recovery

Disclosure in the preliminary results, which unfortunately reverts to Rembrandt's old style of reporting after more disclosure at the interim (and which, incidentally, appears to contravene paragraph 76 (1) (a) of the 4th Schedule of the Companies Act by not stating turnover, a figure Rembrandt supplied at the interim), makes it difficult, if not impossible, to discern profits from tobacco

Also, Rembrandt tends to calculate its dividend on taxed income (rather than including full equity earnings), which, aided by a R70m reduction in the tax charge, to R409m, grew by nearly 20% Dividend cover has been reduced from 5 to 4,6 times but the payout is still covered 3,8 times by cash earnings (198)

Still, the 10% bottom-line growth was less than the market was expecting and is almost certainly linked to slower profits from tobacco The question is whether two years of declining tobacco volumes are starting to dampen profits or if Rembrandt is being politically expedient in the light of threatening statements by the new health authorities to increase taxes on tobacco products and tighten up on smoking in public places

Rembrandt is acutely aware of and sensitive about the issue It's also noncommittal The directors note there has been speculation regarding increased excise duties and other issues which could affect the tobacco industry, but say "With the facts currently at our

FOX

FM 17/6/94

disposal, we are not in a position at this stage to comment on the possible impact on the industry (198)

Tobacco is estimated to make up about half of Rembrandt's bottom line and any radical increase in taxes will naturally affect the business substantially At the same time — and it's just a thought — the second half may have been an opportune period to show tobacco profits under pressure, perhaps by writing down stocks Maybe the annual report will reveal more

Rembrandt's share of equity accounted earnings from associates declined 14% to R179m but that has more to do with the unbundling of Gencor, in which Rembrandt has a wide spread of holdings, and changes to accounting procedures than any underlying problems with the investments Full-year EPS would have been 2,6-percentage points higher, or 206,1c a share, had all the investments been equity accounted

SLOW BURNER

Year to March 31	1993	1994
Pre-tax income (Rbn)	1,25	1,33
Taxed income (Rm)	775	925
Associates (Rm)	209	179
Normal operations (Rm)	951	1 049
Earnings (c)		
— normal operations	182	201
— excluding associates	140	167
Dividends (c)	36,2	43,44
Special (c)	—	14,52

There are still some stodgy holdings in Rembrandt's investment portfolio — one suspects it would like to get out of Metkor and possibly Amalgamated Banks of SA — but the group has been working on this in the past year or so For example, it sold its interest in Fralex and spent R28m increasing its stake in Lenco

Rembrandt has also invested in cellular telephones through a 15% interest in Vodacom at a cost of about R41m this year

The balance sheet remains strong, giving Rembrandt plenty of space to adjust its portfolio

Interest-bearing debt has nearly doubled to R683m but cash has probably increased by a similar percentage Though a figure is not shown, the group is believed to be holding cash of around R1bn.

Even if results did not meet market expectations, the stagnant performance of the share price — despite peaking above R36 earlier this year, at R29 it trades at about the same level as two years ago — cannot be regarded as a judgment on the quality of what is essentially a blue-chip operation The price has more to do with fears about the future of the tobacco industry, in particular, the imposition of increased excise duties.

The share still offers one of the lowest dividend yields in the sector A p e of 14,6, though, would suggest there is value But that entails taking a view on the future of an industry which could be entering an especially uncertain phase *Shaun Harris*

Rembrandt

'Sin taxes' waiting in the wings

Star 23/6/94

◀ From Page 1

ers — were experiencing problems.

Cigarette tobacco is to increase by 9 c/50 grams, while pipe tobacco is to increase by 65 c/kg

National Council Against Smoking executive director Dr Yussuf Saloojee said the tobacco increases were a betrayal of health interests and a victory for the tobacco lobby He said that by disregarding calls for a substantial "health tax" the Budget had sacrificed the lives of 100 000 smokers and lost R500 million to the Reconstruction and Development Programme The Medical Research Council described the tax as "appallingly low"

Finance Minister Derek Keys said there had been calls for an increase in tobacco excise to 50 percent of the retail price, equivalent to many other countries "After consultations with all interested groups and taking into account industry-specific limitations and market conditions, the Government has opted for a phased approach which is reflected in the announced increase," Keys said

Federated Hotel, Liquor and Catering Association national chairman Ian Rubin said the increase in liquor excise was in line with national inflation levels, and with the increases of previous years

Stellenbosch Farmer's Winery chief spokesman Bennie Howard said yesterday that it was appreciated that the tax authorities had discussed increases with the industry for the first time He said the increases were "not unreasonable" (198)

South African Breweries marketing director Barry Smith said that the excise increase on beer was lower than speculated

Rubin said that while the prices were effective immediately, many retailers would await new stock before increasing their prices to the consumer

More 'sin taxes' are still waiting in the wings

■ BY MICHAEL SPARKS

South Africans are going to pay for their sins, but not as much, or as soon, as many had predicted

While the hard-hit tobacco industry lashed out at the 25 percent increases, the liquor industry appeared resigned to the increases in excise duty, and appeared satisfied that the increases were not greater (198)

Tobacco Institute of Southern Africa chairman Joppie Graham said the increase in excise on cigarettes was about three times as high as the official inflation rate and discriminated against an established, legitimate industry and its customers

He said the additional burden of 14 c for a pack of 20 cigarettes came at a time when many people were unemployed, and tobacco producers — themselves major employ-

▶ To Page 3

Extra excise on tobacco, liquor to yield R350m

B Day 23/6/94

MARCIA KLEIN

BUDGET 1994

"SIN tax" adjustments to excise on liquor and tobacco, announced by Finance Minister Derek Keys yesterday, are expected to yield about R350m during the remainder of this financial year.

Our political staff reports that the increases are immediate, and with 14% VAT to be added, will make a sizeable difference in the price of alcohol and tobacco products. They will net the exchequer R525m in a full year.

Duty on beer has increased 6c/*l* or about 2c a 340ml can or "dumpy". The duty on spirits is up 53c/750ml bottle, while the excise on sorghum beer is up 1c/*l*, and cold drinks and mineral water 1c/*l*.

Keys announced increases of 4,5c/750ml on unfortified wine, 5c/750ml on fortified wine and 6c/750ml on sparkling wine.

Excise on cigarettes has gone up about 7c/10 cigarettes, cigarette tobacco about 9c/50g and pipe tobacco and cigars 65c/kg.

Tobacco industry sources said the tobacco industry had been discriminated against with government targeting only tobacco and liquor as generators of indirect revenue.

Tobacco Institute of Southern Africa chairman Jopie Graham said the 25% increase in excise on cigarettes was "about three times as high as the official rate of inflation and discriminatory against an established, legitimate industry and its customers".

SA Breweries (SAB) beer division marketing director Barry Smith said the rise in beer tax had been lower than expected. He estimated the increase would lift beer retail prices by about 2,5%.

KWV said the wine industry was surprised by government's "unsympathetic attitude" towards rural communities of the Western Cape and the 300 000 people who live and work on wine farms.

KWV said a 6c/*l* increase on natural wines represented a 26% rise in excise duties. The authorities already received almost R800m from the products of the wine industry, while total turnover at the producer level was only R700m.

Stellenbosch Farmers Wineries (SFW) said the industry accepted that it should also contribute towards a better future, and that the increases were not unreasonable.

Rembrandt, which is believed to have heavily lobbied Keys, refused to comment. 198

Deloitte & Touche associate director Ken Walton said the effect on retail trade sales would be minimal.

Arthur Anderson tax manager Leo Fincham said the increases were moderate, but "by the time cigarettes reach the consumer, the price is likely to be 10c per 10."

KATHRYN STRACHAN reports that the National Council against Smoking labelled the tobacco taxes a betrayal of health interests and a victory for the tobacco lobby.

Executive director Yussuf Saloojee said the Finance Ministry had been pressed into backing down from making significant increases in tobacco taxes.

Government had been influenced by the tobacco industry into believing tobacco tax increases were undesirable because of vague and unspecified potential losses of jobs in tobacco farming.

The Medical Association of SA also criticised government's reluctance to take drastic and immediate action in respect of tax on tobacco — the use of which placed an unnecessary burden on the health budget.

Smoking tax criticised

AMANDA VERMEULEN

THE tobacco industry warned the Finance Department that a massive excise increase would cost the government millions in tax revenues lost to smuggling, Rembrandt MD Thys Visser said yesterday

Responding to Wednesday's Budget, Visser denied there had been coercion in pre-Budget discussions with the department

Finance Minister Derek Keys lifted excise on cigarettes only 25% despite calls for a 100% hike, prompting claims that Rembrandt had twisted the Minister's arm

B/Day

Medical Association of SA (Masa) chairman Dr Bernard Mandell said yesterday it was apparent that the powerful tobacco lobby had unduly influenced Keys to announce the lower increases

24/6/94

Mandell said that it was disturbing that the health of the population could be influenced by such powerful lobbies

(198)

"The enormous health costs to the government from smoking-related diseases far outweigh the loss of tax revenues, sports sponsorships and industry redundancies," he said

Cigarette price rise leads to retail row

AMANDA VERMEULEN

A FEUD has erupted between cigarette manufacturers and retailers, after last week's cigarette price rises over and above the excise hike announced in the Budget.

Pick 'n Pay and Shoprite/Checkers accused Rembrandt and United Tobacco Company (Utico) of "increasing the price of cigarettes by between 5% and 10%".

Pick 'n Pay joint MD Gareth Ackerman called for an investigation of strong evidence that a cartel was operating "monopolistic price-fixing". B/Doy

"The cigarette manufacturers must be called upon to justify these increases."

Shoprite/Checkers said consumers might be misled into believing that the retailers were responsible for the increases.

Rembrandt SA MD Daan Prins said the price had increased by only 3,9%, well below inflation estimates and just over half of last year's 7% increase. 27/6/94

Prins said that a cigarette price increase had been due as the company had not raised the price since July last year.

He said a multiplier effect on the 3,9% increase had resulted in higher excise, VAT and margins to the wholesaler and retailer, ultimately raising the price paid by the consumer. (198) (2&4)

The price increase could threaten volumes, putting earnings under pressure. "We take the view that although the short-term effect could be negative, our efforts to grow the market by keeping our increase down will pay off in the long term."

Utico spokesman Hilary Thompson said the retailers' claims were spurious, adding that the manufacturer's price to the retailer, through the wholesale network, was determined by market forces.

Allegations that the cigarette manufacturers had colluded to fix prices were "simply not true", she said.

Analysts expect 10% growth for Richemont

B/Day

MARCIA KLEIN

SWISS-based tobacco and luxury goods group Richemont would show reasonable earnings growth for the year to March, but there would be no fireworks, analysts said yesterday 28/6/94

Analysts expected earnings — excluding extraordinary items relating to the restructuring of the group's operations — to increase by up to 10%, although some expected only a marginal rise when the company publishes this week.

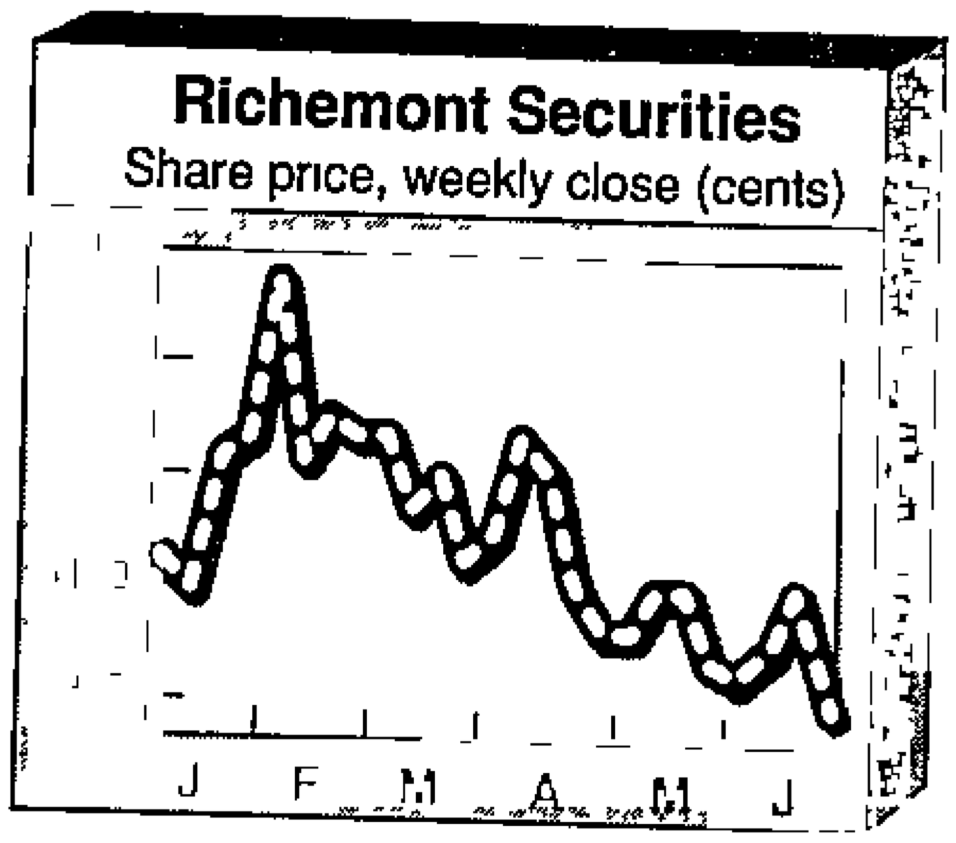
In June last year Richemont said it would split its tobacco and luxury goods interests into Rothmans and Vendome respectively

Analysts said the full benefits of this split would flow through in time to come, but some benefits would already be evident at the year-end, particularly more cash at the centre of the group.

Analysts said much would depend on the luxury goods interests and on exchange rate changes, as results of tobacco interests and its investment in European pay station FilmNet were known

Rothmans reported earnings a unit of 35,1p (34,6p) on marginally lower sales of £1,04bn (£1,08bn) It also announced rationalisation plans, including the closure of factories, which will result in the loss of 1 000 jobs

Richemont's share of FilmNet's losses



would have risen considerably to £35m M-Net, which is a partner to Richemont in the FilmNet investment, recently indicated that the investment in FilmNet had peaked, and that profits would be attained by 1996. (198)

Luxury goods would still feel the effects of the worldwide recession, although there were signs it was picking up Generally, European markets were still depressed but there were signs of recovery in the US and in Asia Pacific.

Yesterday the share was the most active on the JSE In line with the overall trend, it lost 50c or 1,2% to close at R39, near its December low of R36 and well off its June 1993 high of R47,50.

Grow different crops, tobacco farmers urged

ARG 1/7/94

CLIVE SAWYER
Political Correspondent

TOBACCO farmers have been urged by the parliamentary finance committee to change to crops that are better for the nation's health

Tobacco industry lobbyists yesterday told the committee that proposed increases in excises on their products would cause thousands of job losses

They said smuggling of cheap cigarettes from neighbouring countries would increase were the government to force up the price of tobacco

The excise on tobacco products was increased in the budget and may be raised further in the coming five years as part of government policy to use "sin taxes" to fund the reconstruction and development programme 198

South Africans spend R5 billion a year on tobacco products The rise in excise duty is expected to net an extra R200 million for state coffers

Opponents of the industry say that while tobacco is a money-spinner for state coffers, it damages the economy through loss of productivity because smokers are more prone to disease

Tobacco Board chief Jan Graham said there were 861 tobacco farmers, employing 46 000 workers permanently Counting casual labour there were 56 000 workers in the industry

For every percentage point the cigarette price increased above inflation, demand decreased by 0,65 percent

This meant 40 farmers, 2 400 workers and their 14 500 dependents would lose their livelihoods

Richemont profit dips 3 percent

MARC HASENFUSS (198) ARG 1/7/94
Business Staff

SWISS-based Richemont Securities AG reported a 3 percent dip in attributable profit to £208 million (R1,2 billion) for the year ended March

The group will pay a dividend of £6,15 a unit to unitholders — a 4,5 percent increase on last year.

Operating profit came in 5,5 percent higher at £606,5 million — reflecting gains in principal businesses tobacco and luxury goods These were, however, offset by losses in developing its media interests

Richemont's tobacco interests added 3 percent to operating profit at £424 million, while luxury goods showed a significant 17,5 percent growth to contribute £194 million.

Further losses were, however, recorded in developing Network Holdings SA, largely through the pay-TV business of FilmNet SA Losses grew from £7,3 million to £25,7 million in the year under review

It must be noted that profit figures have been restated, excluding group restructuring costs of £60,5 million and European rationalisation costs of £123,8 million

If these exceptional items were included, operating profits were reduced to £422 million — a marked 26 percent drop from last year. Exceptional items amounted to £87 million at attributable profit level, leaving actual bottom line at $115 million

■ In a bid to strengthen its position in the European media industry, Richemont today announced the acquisition of 25 percent of Telepiu, an Italian pay-television operator for $180 million (R648 million)

Uphill going for Richemont

Star 4-17-1994

■ BY DEREK TOMMEY

Richemont, the Swiss-based company which holds Rembrandt's former offshore tobacco and luxury goods interests, is not finding the going easy, figures for the year to March show.

However, it is persevering in its attempts to become a major pay TV operator and has bought a 25 percent stake in an Italian operator for $180 million.

Partly as a result of sluggish tobacco sales, Richemont increased its turnover by only £31,4 million (5,4 percent) to £606,5 million, with net revenue from tobacco interests growing by only 3 percent

In normal circumstances, these figures would have resulted in a consolidated profit of £202,2 million, down £6,1 million from last year's £208,2 million.

But a decision to rationalise and restructure its tobacco and luxury interests at a cost of £194,3 million slashed attributable profit to £115 million — equal to £20,03 (1993 £36,26) a unit.

On the plus side, this restructuring is expected to result in savings of more than £30 million a year on a taxed basis.

But Richemont's directors say further restructuring is still needed if Rothmans is to remain competitive in Europe.

Factories in Berlin and The Hague are therefore to be closed and their production transferred to the fatory at Zevenaar, Holland, and to two factories in the UK. The cost will be included in this year's accounts.

Richemont says worldwide cigarette sales by the Rothmans group dropped 8 percent, with the biggest decline in Europe where France and the UK showed the largest declines

However, the operating profits of the partly-owned tobacco manufacturing public companies in the Americas, Asia and Pacific regions all improved

232 69 198

Upturn

Sales of luxury goods differed from country to country In the UK sales showed limited signs of an upturn, while much of the Continent, particularly central Europe, showed declines

On the other hand, sales in the Far East experienced a real volume increase and an increase in volume has also been noticeable in the United States.

Richemont's media interests are still costing it money, with its share of the loss of Network Holdings increasing from £7,3 million to £25,7 million

Restructuring costs Richemont dearly

BEATRIX PAYNE

TOBACCO and luxury goods group Richemont reported a 45% slump in attributable profit to £115m (£208,2m) for the year to March on the back of a one-off £87,1m restructuring cost and a fall in investment income.

But when adjusted to exclude the exceptional restructuring costs the company — the off-shore vehicle of the Rupert and Hertzog families — reported a 2,9% fall in attributable earnings to £202,1m, the directors said at the weekend.

Unadjusted earnings per unit plunged 45% to £20,03 (£36,26) but excluding exceptional items earnings fell 2,9% to £35,20m (£36,26m)

Average year-on-year exchange rates had a favourable impact on results from overseas companies, increasing pre-tax profit by £42m and attributable profits by £14m.

Operating income for the year rose 5,5% to £606,5m (£575,1m) following higher profits from the tobacco and luxury goods divisions. But this was partly offset by the losses from developing the group's media interests, the directors said.

The £87,1m total restructuring cost involved the group splitting its tobacco and luxury goods interests late last year.

After the restructuring, Richemont owned 60,6% of Rothmans and 69,7% of the Vendome luxury goods group.

Net investment income slipped 7,4% to £53,8m.

The directors said the fall was a result of investment provisions and a loss of income on surplus funds which were returned to minority shareholders as a result of the restructuring.

Unadjusted figures showed a 21,1% fall in the tax bill to £173,6m (£220,3m) but restated figures showed a marginal 0,9% tax increase to £222,4m. B Day 4/7/94

Payments to minority interests, according to unadjusted figures, fell 8,5% to £187,4m (£204,7m)

But when excluding restructuring costs, minority interest pay-outs rose 15% to £235,8m (198,2)

The directors proposed a 4,5% increase in the dividend to £6,15.

Despite a worldwide 8% fall in cigarette sales, net sales revenue from the group's tobacco interests rose £72,5m or 3% to £2,5bn on favourable exchange rates This translated into a 3% rise in operating profit to £424,2m (£410,5m).

Favourable exchange rates saw net sales revenue from the groups luxury goods division rise 14,5% to £1,1bn (£1bn) despite sluggish growth in Europe. Operating profit rose 17,5% to £193,8m (£164,9m)

The group's share of NAR Group's operating profit increased 69,2% to £11m. Losses of £25,7m (£7,3m) were incurred through the group's media arm Network Holdings SA as a result of investments made to improve the range of the FilmNet service

The group announced that it had acquired a 25% interest in Italian pay television operator Telepiu through the purchase of the entire share capital of Compagnie Internationale de Telecommunications for $180m.

The group said the deal would complement its investments in the European pay-TV industry.

The increased excise duty on tobacco products announced in the Budget sparked immediate controversy. Was it too much or too little? Health Writer **DAVID ROBBINS** *examines some of the issues.*

Is this industry worth protecting?

Star 5/7/94

(198)

The excise increases didn't amount to a great deal — 14c on a packet of 20 cigarettes and far less than had been advocated by many health experts involved in the compilation of the ANC's national health plan

Yet, from the tobacco industry came a howl of indignation. An "established and legitimate industry and its customers" were being discriminated against, says Tobacco Institute of Southern Africa chairman Joppie Graham

On the other hand, health experts who had been anxious to discourage the habit, especially among young people, complained that the excise increases were too low to boost revenue for a public health sector increasingly saddled with the costs of smoking-related diseases

The two central issues around which the controversy revolves are clearly the health implications of smoking and the well-being of the tobacco industry itself

It is a sizeable industry which employs more than 50 000 people in tobacco growing, co-operatives and manufacturing In 1993, about R1,7 billion was raised through excise and VAT on tobacco products, and, according to the Department of National Health, more than R200 million was spent on advertising

Dr Krisela Steyn, head of the division of Chronic Diseases of Life Style at the Medical Research Council in Cape Town, says this advertising is increasingly being aimed at women, the youth and black people

The central question to be asked is simply: is it an industry worth protecting. Professor Max Price, director of the Wits-based Centre for Health Policy, says there is no reason why tobacco taxes should not be drastically increased immediately since South Africa's taxes are among the lowest in industrialised countries

"It's difficult not to conclude that the Government has been pressured by the tobacco industry But we must still hope that it will be able to distance itself from the industry."

Interestingly, the South African tobacco industry is not as concerned about its workers as sometimes appears, according to Dr David Green of the Medical Association of South Africa. Between 1987 and 1993, tobacco consumption increased in South Africa by 7,4 percent, during the same period, however, 14 000 tobacco workers lost their jobs

One of the main reasons for this, says Green, has been the increasing preference for Zimbabwean and Malawian leaf, which is cheaper and superior to the locally grown variety, a situation which illustrates that the tobacco industry, like any other enterprise, is primarily concerned with maximising profits

But at what cost?

One of the world's leading cancer scientists has remarked that lung cancer represents the largest biological experiment the world has yet known, with millions of volunteer guinea pigs placing themselves at risk.

Before we look at the health implications of smoking, however, it is worth glancing for a moment at the impact which tobacco has on the global economic scene.

Howard Barnum, a senior economist with the World Bank, says bluntly "Tobacco is too great a problem to be left to the health sector alone It is necessary to convince ministers of finance that controlling the consumption of tobacco is not only good for health but an important policy for their countries' economic prospects as well The message which I hope to convey is that tobacco use is an economic disaster globally."

This is how Barnum does his sums Using data issued by the US surgeon-general, Barnum calculates that "one ton of tobacco consumed causes about 0,65 deaths, with an average lag of 25 to 30 years". He then adds the cost of morbidity and mortality, and comes up with a balance sheet which shows the benefits (to producers) and costs (to individuals and societies) of tobacco consumption Needless to say the net benefits are always written in red.

"Using this approach," Barnam says, "we can say with certainty that the world tobacco market produces an annual global loss of $200 billion."

But of course the assumption that all this money — more than five times the latest South African Budget — actually does go up in smoke is dependent on a single premise that smoking is bad news when it comes to health.

According to the Tobacco Institute of Southern Africa, such a premise is moot Joh Groenewald, who handles the institute's public relations, says that the institute doesn't know whether smoking causes certain diseases or not

Admittedly, says Groenewald, smoking has been identified as a risk factor in diseases like lung cancer, heart diseases and emphysema, but so have more than 250 other risk factors like diet, overweight, lack of excercise and so on A risk factor is not a cause, and smoking is a "relatively minor" one when it comes to heart disease.

Groenewald also points out that "science has not determined the mechanism by which a normal lung cell becomes cancerous"

Steyn dismisses these arguments out of hand

"The evidence which links smoking with many forms of ill health is overwhelming," she says "Thousands of studies have shown this There's clinical evidence, animal model data, cell culture data, as well as vast amounts of epidemiological evidence, all of which make the linkages irrefutable now"

Another scientist, Dr Carl Albrecht of the Medical School at Stellenbosch University and chairman of the Western Cape region of the Cancer Association, talks about the molecular interaction between cancer-producing carcinogens and cell tissue as being a "black box".

"Our insight into what happens in the black box is 10 times greater than it was 10 years ago We already know 90 percent of the story The rest is simply a matter of time. But even now, the evidence which directly links tobacco smoke to cancer is more than overwhelming."

It could be that the Tobacco Institute will soon need to revise its stance with regard to the manifold risks of its products. Equally necessary will be a complete overhaul by the South African Government of how these products are taxed.

Up in smoke . . . some say this habit is deadly to your health, others insist the facts are not proven and the jury is still out.

NEWS

Shopkeepers charge more

Smokers huff and puff over increases

Star 5/7/94

BY ZINGISA MKHUMA
CONSUMER REPORTER

Angry smokers have complained about being made to pay twice as much "sin tax" by greedy retailers who are charging them more than the recommended retail price for cigarettes

The tobacco industry was slapped with a 25 percent increase on June 22 by Minister of Finance Derek Keys. As a result, the price of a pack of 20 cigarettes went up by 14c while a pack of 30 increased by 30c

However, some retailers, especially cafe owners, were charging customers as much as R1 more for a pack of 20 cigarettes and R1,15 for a pack of 30

A Star staffer refused to pay R5,45 for a 30s packet of Chesterfield at a Dunkeld West shopping centre cafe this week. The recommended selling price for this brand is R4,30

The Consumer Council has received many similar complaints from consumers, and warned people to take note of the recommended retail prices which were advertised by manufacturers in newspapers on June 24

The council emphasised that it did not encourage smoking but pointed out that although the recommended prices were not compulsory, consumers could save by not paying extravagant prices for cigarettes

According to the council the 30c increase in the price of cigarettes already included an additional 6,5c profit for wholesalers and retailers. (198)

Intercontinental Tobacco Company manager Ernst Sigger confirmed that the new prices had an 11 percent profit margin built into them, but if retailers wanted to make more profit they could do so

"We placed an advertisement in the paper for the simple reason that not every brand went up with the same percentage But we can't enforce those recommendated prices because we do not have standard pricing laws," he said.

since 1990 the teachers in-

Tobacco, liquor bolster Remgro bottom line

(198)

ARG 6/7/94

MARC HASENFUSS
Business Staff

TOBACCO and liquor contributed a whopping R538 million to Rembrandt's bottom line in the year to end March, chairman Johann Rupert disclosed in the group's annual report

These interests — incorporated in the trade mark group — made up more than half of Rembrandt's total earnings of just over R1 billion in the period under review

Profits generated by trade marks were up a solid 19 percent on last year's R453 million in spite of a 3 percent slip in local market cigarette consumption and modest liquor sales

Mr Rupert noted that the tobacco division was able to maintain and even slightly improve its relative position in the market place.

He said prospects for the tobacco division were still uncertain, with no evidence yet of a consumer led revival "Productivity and cost containment measures will remain a priority in the coming year."

Rembrandt's wine and spirit subsidiaries SFW and Distillers Corporation were well placed to take advantage of any upturn in the economy.

Rembrandt's mining interests donated a R219 million to bottom line — eight percent down on the previous year Profits from mining interests made up 21 percent (previously 25 percent) of group earnings

Mr Rupert said the unbundling of Gencor had a marked effect on the earnings contribution of the mining division

Rembrandt's industrial interests put on a better show in the year to end March, increasing profit contributions 27 percent to R116 million. The industrial division's earnings constitute 11 percent of group earnings

The industrial division's stronger performance was mainly attributed to the significant turnaround at Rainbow Chickens

Huntcor had a mixed year, with improved presults from Robertsons and Transvaal Sugar offset by a disappointing performance by HL&H Timber

Mr Rupert said the Huntcor group had taken steps to increase productivity which should have a positive impact on results in the year ahead

Struggling engineering group Dorbyl was also expected to show an improvement by the second half of the current financial year

Rembrandt's financial services division contributed R75,6 million to bottom line, down 3,4 percent on last year.

These interests have been scaled down over the years with the disposal of stakes in Stanbic, Momentum Life and most recently Boland Bank. This division now holds a 9,9 percent stake in Absa and a 18,3 percent holding in the Sage Group

Corporate and other interests — mainly Rembrandt's services and treasury divisions — contributed 12 percent more to bottom line at R100 million.

The group's investment in cellular phone group Vodacom is classified under this division. Rembrandt's share of Vodacom's start-up losses amounted to R3,2 million

Mr Rupert reported that a portion of Rembrandt's investment was sold and the group's interest in the cellualr phone group now stands at 13,5 percent. The group's investment in Vodacom is estimated at around R100 million.

Tobacco, liquor bolster Remgro bottom line

198

ARG 6/7/94

MARC HASENFUSS
Business Staff

TOBACCO and liquor contributed a whopping R538 million to Rembrandt's bottom line in the year to end March, chairman Johann Rupert disclosed in the group's annual report.

These interests — incorporated in the trade mark group — made up more than half of Rembrandt's total earnings of just over R1 billion in the period under review.

Profits generated by trade marks were up a solid 19 percent on last year's R453 million in spite of a 3 percent slip in local market cigarette consumption and modest liquor sales

Mr Rupert noted that the tobacco division was able to maintain and even slightly improve its relative position in the market place.

He said prospects for the tobacco division were still uncertain, with no evidence yet of a consumer led revival. "Productivity and cost containment measures will remain a priority in the coming year."

Rembrandt's wine and spirit subsidiaries SFW and Distillers Corporation were well placed to take advantage of any upturn in the economy.

Rembrandt's mining interests donated a R219 million to bottom line — eight percent down on the previous year. Profits from mining interests made up 21 percent (previously 25 percent) of group earnings

Mr Rupert said the unbundling of Gencor had a marked effect on the earnings contribution of the mining division.

Rembrandt's industrial interests put on a better show in the year to end March, increasing profit contributions 27 percent to R116 million. The industrial division's earnings constitute 11 percent of group earnings.

The industrial division's stronger performance was mainly attributed to the significant turnaround at Rainbow Chickens.

Huntcor had a mixed year, with improved presults from Robertsons and Transvaal Sugar offset by a disappointing performance by HL&H Timber

Mr Rupert said the Huntcor group had taken steps to increase productivity which should have a positive impact on results in the year ahead.

Struggling engineering group Dorbyl was also expected to show an improvement by the second half of the current financial year.

Rembrandt's financial services division contributed R75 ,6 million to bottom line, down 3,4 percent on last year.

These interests have been scaled down over the years with the disposal of stakes in Stanbic, Momentum Life and most recently Boland Bank. This division now holds a 9,9 percent stake in Absa and a 18,3 percent holding in the Sage Group.

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Fm 8/7/94

RICHEMONT

Taking the costs upfront

Analysts who predicted earnings growth of up to 10% from Swiss-based Richemont a couple of weeks ago were, fortunately for them, not named Excluding restructuring (£75m) and rationalisation (£124m) costs, Richemont's earnings per unit declined 2,9% to £35,20 If exceptional costs are included, as they are in the table, the decline was nearly 45%

Admittedly, the exceptional costs were higher than expected They were also necessary for Richemont to refocus its interests on new growth markets and achieve savings and better efficiencies from tobacco operations in Europe Management claims to pay little attention to short-term results. Also, MD Johann Rupert warned a year ago that financial 1994 would not be a particularly good year for Richemont.

There is little doubt that the restructuring of Richemont into separately quoted tobacco and luxury goods businesses, apart from offering a more logical structure, will be to the long-term benefit of the group

It offers management the flexibility to concentrate on developing opportunities, particularly in the tobacco business, where Rupert says Asia will become an increasingly important market Europe can now be regarded as a declining market where a strong anti-smoking lobby is adding pressure to sales That's partly the reason for the horrible results from Rothmans International, whose pre-tax profits dropped 27% to £344m

Better efficiencies were clearly needed in Europe, leading the board of Rothmans to decide to close factories in Berlin and The Hague, at the cost of about 1 000 jobs Rothmans' European rationalisation costs account for nearly half the total rationalisation charge At the same time, Richemont estimates that more than £30m will be taken off costs annually as a result of these measures.

Tobacco, the rump of Richemont's business, was the overall dampener on results Total worldwide cigarette volumes were down by 8% — once again, favourable exchange rates came to the rescue, growing net sales 3% to £2,5bn (see table)

Richemont's Rupert *an early warning*

Operating profits were marginally stronger, boosted largely by improved profits from interests in the Americas, Pacific regions, and particularly Asia.

Vendome, holding the luxury goods interests, put in the stronger performance despite its major markets in Europe remaining depressed

Turnover growth of 5,4% in Swiss francs, Vendome's reporting currency, translated into growth of 14,5% in sterling Operating profit increased by 17,5% in sterling and was the main influence on the respectable 5,5% growth in operating profit on the consolidated P&L account

Main factors behind this performance were volume increases, in real terms, in the Far East, mainly through the strengthening yen encouraging increased Japanese tourism to the region Volumes also increased in the US, a market in which Vendome is not well represented Traditional sentiment is that Americans don't spend heavily on luxury goods That could be changing and it would not be surprising to see Richemont paying more attention to the massive US market

198

It now seems clear that Richemont is targeting the media as its third, developing source of revenue FilmNet, jointly controlled by Richemont with MultiChoice, continues to absorb money Richemont's share of its losses and development costs were £25,7m, up from £7,3m in 1993 At the same time Richemont has invested US$180m acquiring a 25% interest in Italian pay-TV operator Telepiu

The media interests will probably continue to absorb cash for some time Though FilmNet is expected to become cash positive in the next year or so, Telepiu is still making losses (not disclosed), and probably will continue to for the next few years Still, this is a growth area Richemont has indentified, and further media acquisitions are likely

Basically, Richemont is a well-run group with exceptionally strong brand names The problem is that its traditional geographic market mix is changing The group is refocusing on new markets and paying the price up front

PAYING FOR CHANGE

Year to March 31	1993	1994
Turnover (£m)	3 443	3 665
Operating income (£m)	575	607
Attributable (£m)	208	115
Earnings per unit (£)	36,26	20,03
Dividends per unit (£)	5,89	6,15

Rupert says he is "very happy" with developments, despite the cost "Restructuring costs were as expected The payback time for Rothmans' rationalisation costs should be less than two years," he says

Rupert expects some benefits to start coming through by the end of this financial year but 1996 could be the year when strong earnings growth is resumed, particularly if European markets start to pick up

That makes the share look cheap at R38 Analysts don't expect it to go lower, though a superficial reading of latest results could result in further declines Apart from the rand hedge element, Richemont appears to have positioned itself for better growth There probably won't be fireworks this year but long-term appreciation could be rewarding

Shaun Harris

SLOW SALES, SLOWER PROFITS

	Net sales revenue 1993	Net sales revenue 1994	Operating profit 1993	Operating profit 1994
	£m			
Tobacco	2 412,6	2 485,1	410,5	424,2
Luxury goods	1 030,5	1 080,0	164,9	193,8
Other	—	—	(8,1)	(9,1)
The Company and its subsidiary undertakings	3 443,1	3 665,1	567,3	608,9
Share of associated undertakings			7,8	(2,4)
Operating profit			575,1	606,5

CHARTER

Courageous buy

Do you have the courage to put R1,89bn on the table to buy a company on a forward p e of 20 and an historic p e of zero? Well,

Richemont to absorb losses

BEATRIX PAYNE

TOBACCO and luxury goods group Richemont's recent acquisition of 25% of the loss-making Italian cable TV network Telepiu could take at least four years to break even, MD Johann Rupert said yesterday. B/Day

It could take roughly four to five years before Telepiu showed positive cash flow, Rupert said, but the company would make little dent in the group's overall earnings. 8/7/94

Rupert said that the $180m spent on Telepiu was "expensive". But it represented one-third of what the group spent on annual advertising for cigarette business Rothmans. "In terms of our annual spending this investment is affordable," he added, and the group could absorb its share of losses.

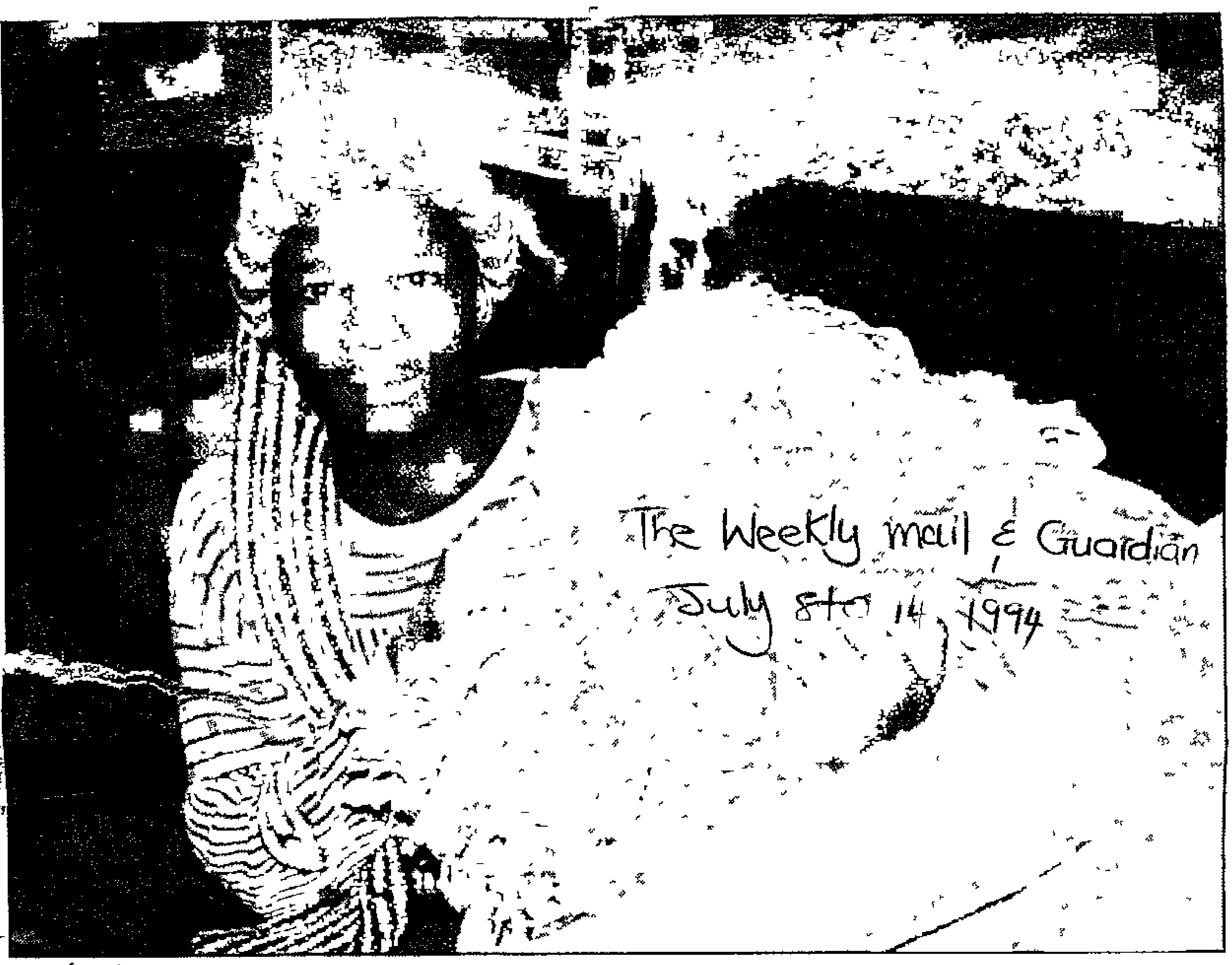
He said that Richemont's overall balance sheet was looking strong for the coming year.

The group was also likely to make only a "minimal financial contribution" to supporting Telepiu over the next few years

While he would not make predictions about Richemont's earnings growth, Rupert said the group "would not have increased the dividend or made further acquisitions unless we were happy with what we saw in future growth". (198)(230)

An analyst said Telepiu could break even by next year.

The network had undertaken its major capital investment, and had probably seen its worst losses last year.



Just not good enough ... Drought has shrivelled the tobacco crop, and much of it can't be sold

Glum days in Marico for Van

Cathrin Hennicke
and Claus Stacker

WESTERN Transvaal tobacco farmer Daan van der Merwe doesn't smile much. The yellow, sweetish-smelling leaves on which his livelihood depends are shrivelled, with brown, decaying edges — the effect of the drought which has gripped the region for the past two years. This year, the tobacco industry will pay him much less than last year, or perhaps nothing at all. (198)WM 8-14/7/94

Much of his recent harvest he won't be able to sell. In front of the stoves which he uses for drying the leaves lies a huge pile of unusable tobacco. "This could be enough to buy two farms," he says. But he can't even use it as compost.

"The situation is desperate. If we don't get rain this year, I'll have to retrench all my workers and may hang myself. The banks gave me more credit for this year, while my debts from last year aren't paid off. I have to pay R18 000 a month on debts and interest. This is definitely the last year I can stand it — it's the last chance I have," he says.

Rotten luck has dogged Van der Merwe and his fellow tobacco farmers at Skuinsdrif for the past three years. In 1991, hailstorms struck three times. The next year, the Department of Water Affairs recorded a drop in the region's annual rainfall from 642mm to 423mm — tobacco needs at least 700mm a year.

In addition, tobacco consumption worldwide has declined since 1989. A low was reached last year when the world market price dropped by about 50 percent as good yields swamped the market.

On the recommendation of the Magaliesberg Co-operative Tobacco Planters' Association, which comprises half the country's estimated 800 tobacco planters, Western Transvaal farmers grew as many plants as they could. Some 40-million tons were harvested, but farmers had guaranteed sales for only 11-million.

Van der Merwe, whose farm of 400ha is one of the biggest in the area, harvested about 136 000kg, of which he could sell only three quarters, and only half at full price. Some of the balance he sold for 10c a kilogram. He lost R360 000 and had to retrench 36 of his 150 workers.

The 40-year-old father of three has now reduced his growing area from 200ha to 70ha. But the Marico Bosveld Dam is still only 18 percent full, offering too little to the 25 tobacco farmers it supplies. Underground water is also dwindling.

Seven Skuinsdrif farmers and farm managers have already given up, taking jobs to raise the money to pay their employees' wages. One now works as a pipefitter 800km away. To save money, he visits his wife and three children once every couple of months. Another tells how he has no money for petrol to fetch his children from school in Potchefstroom at weekends. Another had his bakkie repossessed when he couldn't meet the repayments and now uses an aged tractor.

"This is going to happen to all of us if we don't get help," Van der Merwe says. "I couldn't pay my labourers an increase for three years. But it would break my heart to tell them it's over. They're so hard working, so well behaved, so disciplined — they would die for the farm."

11 commandments

Eleven different warnings have been listed in the *Government Gazette*. They are

- Danger Smoking can kill you
- Danger Smoking causes cancer
- Danger Smoking causes heart diseases
- Smoking damages your lungs
- Pregnant? Breast-feeding? Smoking can harm your baby
- Stop smoking to stay fit and healthy
- Save money: Stop smoking
- Warning. Don't smoke near children
- Tobacco is addictive
- Your smoke can harm those around you
- It is against the law to give or sell cigarettes to anyone under the age of 16

Van Rensburg said nine of the country's 20 top advertising agencies in the country had some stake in cigarette ads. His own company might have to lay off more than half its staff if the regulations went through. The ripple effect of job losses in the industry would be "incalculable".

Tobacco Institute chairman Joppie Graham said the government's strategy "is to compel the tobacco industry to cease advertising by means of this de facto advertising ban".

Describing the regulations as "draconian and restrictive in nature", Graham said the tobacco industry, and not the Department of Health, would be blamed by the advertising industry and the media "for the total withdrawal of advertising".

Magazine editor and publisher Jane Raphaely also regards the legislation as misguided, arguing that the message will reach the "literate, affluent and more pale" segment of the population: magazine and newspaper readers who know the dangers and have already made up their minds about whether to smoke or not.

She said the smoking habit was continuing to grow "primarily among people who are not literate, the very young, and poor single parents in economic ghettos all over the world". Reaching these people would entail measures other than restricting magazine and newspaper adverts.

Though the legislation "gives a semblance of action, the real problem is not addressed," Raphaely added. It would be better for the government to use its own resources, including the SABC, to educate people. "Education about the dangers of smoking could be combined with education on excessive drinking and driving, the importance of healthy eating, the dangers of the depletion of the ozone layer and Aids awareness."

Zuma has spiritedly defended the proposed regulations. Interviewed recently on radio, she said: "The most important regulations are the labelling of the cigarettes and tobacco packets, so that when people buy them they actually get the warning on the packet itself but also the advertising. We would like every advert that is on the sports field or on television also to have the warning.

"The important thing is to try to discourage especially teenagers and children from starting to smoke.

"It may be difficult to change the people who are already smokers, but we would really like to reduce the number of children that start to smoke and also to protect non-smokers so that non-smokers know there is a danger in passive smoking as well."

Rembrandt's tobacco prospects 'uncertain'

BEATRIX PAYNE

PROSPECTS for the Rembrandt Group's (Remgro's) mainstay tobacco division over the next year were uncertain and would rely on a consumer-led revival, chairman Johann Rupert said in the group's annual report BDay 13/7/96

Local cigarette consumption had declined by more than 3% during the year to March and Rupert said the division would keep productivity and cost containment a priority during the coming year

The Trade Mark group — which is dominated by the group's tobacco division — contributed 51,3% or R537,9m (R452,7m) to total earnings for the year to March.

Remgro reported attributable earnings a share 10,3% higher at 200,9c (182,1c). Earnings, excluding the share of retained income of associated companies, increased 19,9% to 167,3c (139,5c) a share

Rembrandt Controlling Investments, which holds 51,1% of Remgro, saw consolidated earnings increase 10,3% to 148,8c (134,9c). Ordinary dividends increased 20% to 32,16c (26,80c).

Rupert said the company had experienced mixed operating fortunes during the year, with many markets in which the group operated showing little or no growth.

This was due to political uncertainty, urban unrest and no substantial improvement in consumer purchasing power.

Growth was also inhibited by the weaker commercial rand despite a reduction in the inflation rate.

But export industries benefited from an improvement in the local price of foreign currency-denominated exports. The group also gained from the stronger gold and commodity prices It was substantially exposed to minerals through its mining investments which represented 20,9% (25,2%) of total earnings

Mining interests saw earnings fall 8,4% to R219m (R239,2m) due to Gencor's unbundling (198)

Despite political unrest and depressed economic conditions which had left the tobacco division's operating profit relatively static, the division had still been able to improve "slightly" its position in the market place.

Earnings for the wine and spirits interests were slightly reduced for the six months to December.

Contributions from the group's industrial interests rose 27,4% to R116,2m (R91,2m).

Dorbyl reported attributable earnings of R0,5m for the six months to March (R22,7m)

Earnings contributions from the financial services division had fallen 3,4% to R75,6m and represented 7,2% of the group's earnings as the sociopolitical climate put a dampener on confidence.

LION MATCH

(198)

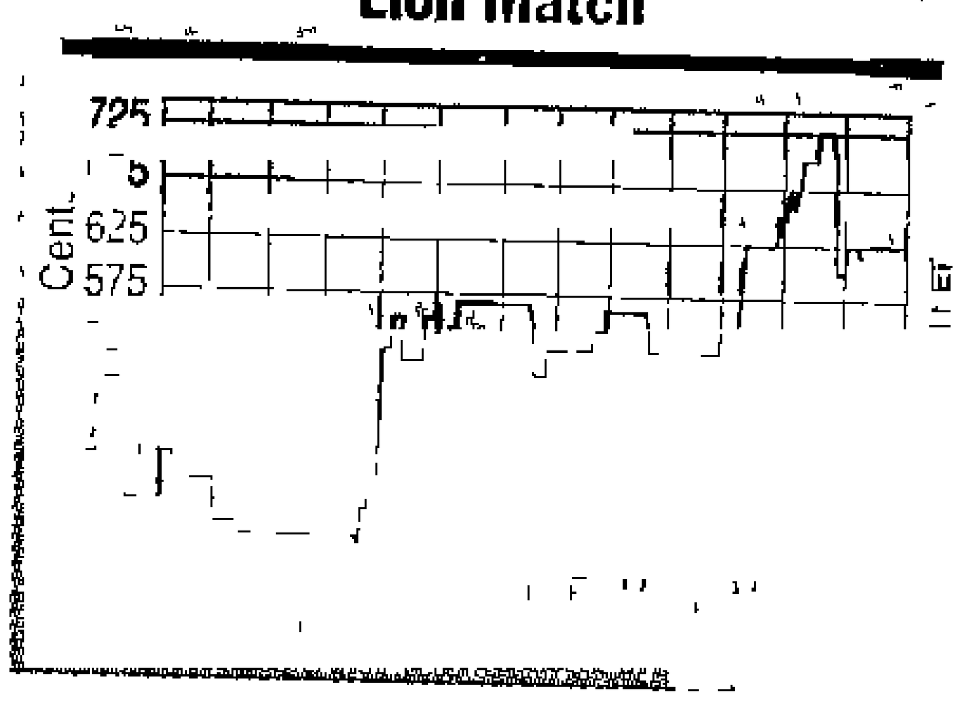
Growing profit flame

This company appears — at any rate, on the face of it — to achieve the miracle of getting progressively smaller while becoming steadily richer Ask any shareholder and he will tell you this is a state devoutly to be desired

Turnover since 1991 has plummeted from R331m to 1994's R238m — a level the company last saw in 1989 Profits have

FM 15/7/94

Lion Match



Activities: *Makes, sells and distributes consumer products including matches, lighters, shaving products and packaging*
Control: *SA Breweries 70,5%*
Chairman: *L van der Watt, MD E M Turner*
Capital structure: *45,4m ords Market capitalisation R281m*
Share market: *Price 620c Yields 3,0% on dividend, 7,2% on earnings, p e ratio, 13,8, cover, 2,4 12-month high, 750c, low, 345c Trading volume last quarter, 500 000 shares*

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	6,8	12,7	4,3	5,4
LT debt (Rm)	48,8	23,2	23,0	13,6
Debt equity ratio	0,51	0,25	0,19	nil
Shareholders' interest	0,46	0,51	0,6	0,81
Int & leasing cover	3,4	3,1	6,0	n/a
Return on cap (%)	16,7	17,3	17,4	11,9
Turnover (Rm)	331	330	295	238
Pre-int profit (Rm)	40	39	42	36
Pre int margin (%)	12,1	11,9	14,2	15,0
Earnings (c)	34	28	34	45
Dividends (c)	14,0	11,5	14,0	18,5
Tangible NAV (c)	242	256	320	534

surged from R15,4m in 1991 to this year's R20,3m If it is bewildering, it is also the kind of puzzle investors love to worry about

Much of Lion's resurgence is accounted for by the sale of former subsidiary Interpak Holdings to Anglovaal packaging company Consol, which earned R205m for Lion This accounts for the large cash holding of R186m at year-end and for interest earned of R3,1m (1993 interest paid of R6,9m)

Management justified the sale of Interpak

15/7/94

on the basis that it operated independently and its business didn't fit neatly with the rest in Lion's stable It sounds convincing enough, in practice, though, I'm inclined to think Consol saw Interpak as a nice adjunct to its own operations and was prepared to pay well to acquire it That's the best reason I know for selling (198)

Lion's trading profit for the year was R6m less than 1993's, the turnaround came from the R10m swing in the interest bill Lion also disposed of its share of the Amalgamated Appliances joint venture which it held with Tedelex and which was established in January 1992 Amalgamated manufactures household appliances and brand names include Pineware, Haz and Salton

The deal was done for "no consideration" — a polite way of saying Amalgamated was handed back to Tedelex for nothing You can just see the Lion directors mopping the sweat from their brows and thanking their lucky stars someone was around to relieve them of the embarrassment Because embarrassing it was MD Ted Turner says the investment reduced Lion's earnings for the year to March 1993 by 24%, and did the same in the six months to September

However, group EPS rose 32% and the dividend has been lifted to 18,5c, the highest for six years And the balance sheet has a generous safety margin

Lion holds a portfolio of investments concentrated in fast-moving consumer items safety matches, shaving accoutrements, home and garden products, and disposable lighters It has shed two businesses in the last year and has surplus cash Is it now on the acquisition trail?

"We'll make an announcement when we're ready," is all chairman Laurie van der Watt will say Presumably, that means Lion is looking, and may indeed have found something to buy At least Van der Watt and Turner won't need to ask shareholders for a contribution

David Gleason

Remgro chief warns on excise hike

BRUCE CAMERON (199)
Business Editor ARG 27/7/94

GOVERNMENT revenue and the tobacco industry would suffer if excise duties were pushed much higher, Rembrandt Group chairman Johann Rupert has warned.

In an interview after the company's annual meeting in Stellenbosch yesterday Mr Rupert said the so-called double benefit of heavy increases in excise duties on cigarettes did not work

The double effect was supposed to be a reduction in consumption and an increase in taxes

This had been tried in Canada and Hong Kong — and it had failed

Mr Rupert said the result of pushing excise duties too high was to stimulate smuggling with the result that the tax base suffered as well as the local tobacco industry while consumption was not affected

Mr Rupert said smuggled cigarettes were already available in South Africa with the Russian double eagle brand selling in the Transvaal at R1,59 a pack against the average legal price of R2,80 for a pack of twenties

He said the profit temptation was enormous with a container load of smuggled cigarettes providing about R1 million in profits.

He said there were a number of other scams, including the evasion of VAT, with cigarettes being sold on pavements for substantially less than in stores

Mr Rupert said the government was aware of the problem and this was the reason why excise duties had not been doubled in the last Budget

He declined to comment on other government proposals which will force cigarette companies to publish more prominent and explicit health warnings on packets and in advertising, saying the issue was under discussion

Cigarette, liquor sales continue downward trend

B/Day 3/8/94

BEATRIX PAYNE

THE recent hikes in "sin taxes" were unlikely to cut sales, but sales volumes of cigarettes and liquor were continuing their downward trend, industry sources said at the weekend.

Rembrandt MD Daan Prins said it was too early to estimate how far the 25% increase in excise duties had affected cigarette sales. But it seemed consumption had fallen regardless. The group said earlier that sales had fallen 3% over last year.

Recent sales figures were skewed as retailers had stockpiled at the old prices in anticipation of higher taxes.

The average price of Rembrandt's major brands had risen about 30c a pack of twenties. Two thirds of this stemmed from higher excise duties.

Rembrandt hoped to increase market share to compensate for the fall in sales, but was unlikely to increase prices.

SA Breweries operations director Graham McKay said the group had increased its prices by the amount of the excise duties which were set at 6c a litre for beer and 1c a litre for sorghum beer.

Consumer demand had fallen but this was also part of a broader recession-led move away from clear beer to cheaper wines and spirits.

(198)

Clear beer had been weighted unfairly and contributed the most to government's excise pie.

SA Liquor Store Association chairman Chris Mhlongo said liquor store owners were seeing a fall in sales but had had to increase alcohol prices to absorb the levy.

There was an "urgent need" for retailers, distillers and government to discuss problems and the association hoped to organise an October "bosberaad".

Liqour store owners were trying to cut prices to entice customers but were hamstrung by the duties. The duties should not, however, be "shot down" as they would be a major source of income for the RDP.

Less smoking signals more heat for Utico

B/Day 19/8/94

AMANDA VERMEULEN

TOBACCO and cigarette company United Tobacco Holdings (Utico) reported a 2,9% fall in earnings to R13m for the six months to June, following falling demand and poor trading conditions

Earnings a share fell by 2,7% to 215c and the interim dividend to 129c (132c)

Turnover rose 0,3% to R290m The contribution from Willards — sold for R411m in May — was 12,8% lower at R107,5m This was partly offset by United Tobacco increasing turnover 10,1% to R182,6m.

Operating income slumped by 16,6% to R21,6m, again heavily influenced by Willards' operating income slipping by 31,6% to R3,9m United Tobacco's operating income fell by 12,3% to R17,7m. (198)

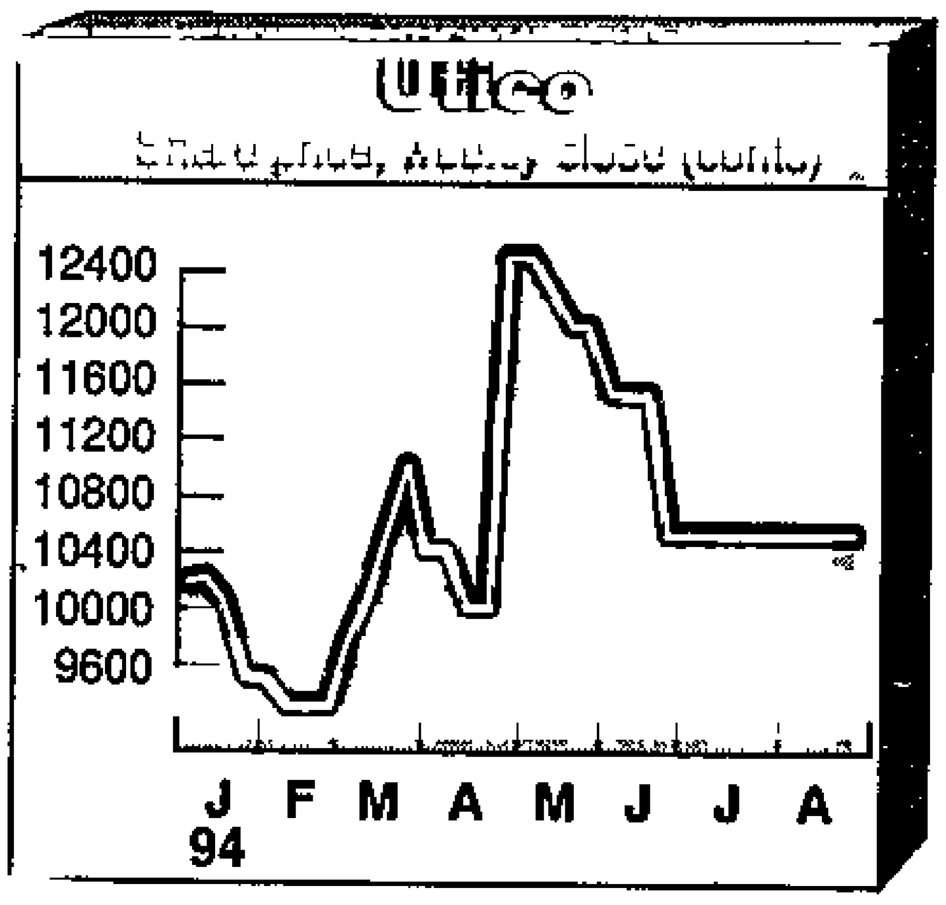
Pre-tax income remained static at R24,6m but tax increased 3,6% to R11,6m to leave attributable income 2,9% lower The Willards sale netted R338m

The directors said the increase in United Tobacco's turnover was somewhat artificial as there had been substantial buying in anticipation of Budget excise increases

They said the cigarette market was in decline but it was still too early to determine the full effect of excise.

The directors said the tobacco industry was being targeted not only by calls for further excise increases, but also by the proposed introduction of regulations regarded as "stringent and prohibitive"

The effect of excise increases as well as other proposed tobacco control restrictions did not augur well for the industry. Trading results for United Tobacco for the next six months were expected to be significantly lower than the current results and the comparable period last year.



CAPE BUSINE

Cape's tobacco industry provides work for 5 000

S Times [C Metro]

By FRED ROFFEY

THE tobacco industry in the Western Cape employs 4 332 farm workers compared with 1 064 in the Eastern Cape, 7 542 in the North West Province, 23 215 in Eastern Transvaal and 8 068 in Northern Transvaal, according to the latest report from the Tobacco Institute of Southern Africa

2/8/94

It claims the industry helps ensure stability through the provision of employment to many thousands of people — including provinces where no tobacco is grown, such as the wholesalers and retailers handling the finished product

(198)

For example, the PWV has no tobacco producers but 20 000 Spazas, 13 704 retailers and 61 wholesalers selling tobacco products, while in the Northern Cape 2 257 retailers and 26 wholesalers are involved, compared with 5 793 retailers and 41 wholesalers in the Western Cape.

The Tobacco Institute says the industry has 861 tobacco growers and employs about 53 000 people, and contributes towards a sound economy with more than R1,7-billion going to the national exchequer.

Cigarette ad laws warning

BEATRIX PAYNE

TIGHTER cigarette advertising regulations could force cigarette companies to close plants, sources said yesterday.

One analyst said if sales volumes fell 10%, Rembrandt, which controlled about 80% of the local market, might be forced to close down one of its factories.

BiDay

According to the Tobacco Institute, about 5 500 people were employed in four SA cigarette factories.

But the analyst said it was difficult to forecast what impact the regulations would have on sales until the final legislation was published, which was expected to be next month

He said the regulations would pose a major problem for Utico which was considering a restructuring after the sale of Willards.

Utico MD Stuart Sutherland said the main impact of the regulations would be to distort the market and hamper the launch of new products.

1/9/94

But he said advertising bans did not have a major effect on consumption.

One analyst said it was likely new regulations and higher excise duties could lead to a 5% fall in sales. "It will hurt the industry but won't be that bad."

He said the rise in consumer spending expected over the next few years could offset the expected slide in sales.

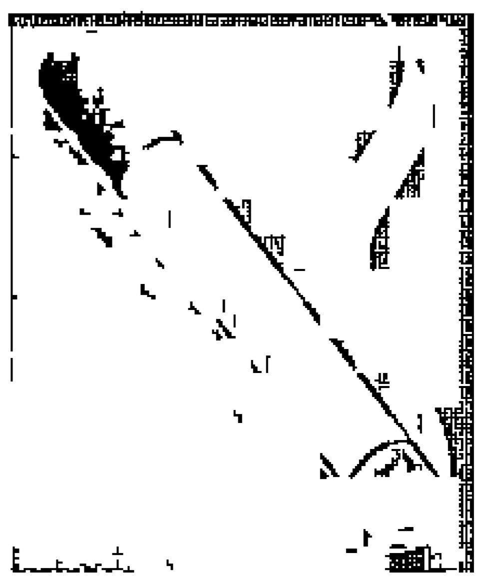
198

TOBACCO ADVERTISING

Fm 2/9/94

Putting out fires

Proposed health regulations have sounded economic alarm bells



Advertising hoardings sprouting in Johannesburg in the past week testify to growing concern at the possible impact of proposed regulations to control the advertising of tobacco products "Create jobs, not restrictions," they proclaim "Stop unfair tobacco legislation We want freedom of commercial speech" The advertising is being run by the Outdoor Advertising Association of SA, one of the media most seriously threatened

The proposed laws require that health warnings should occupy a quarter of the area of print ads and the front of cigarette packs, and a similar proportion of the duration of radio and cinema commercials The deadline for submissions was this week. The immediate and direct effects are a possible loss of R150m in annual revenue if, as they threaten, the tobacco companies refuse to continue advertising

Advertisers argue the ads will effectively convey anti-smoking messages and since the warnings are not attributed to a government official, they give the clearly untenable impression that the tobacco advertiser is warning consumers not to use his product There is also broader worry about the long-term survival of the tobacco industry if anti-smoking pressure keeps building — and about the principle of free choice and expression

Internationally, as evidence has mounted about the health risks associated with smoking, the battle for the hearts and minds of smokers has tended to shift away from health to civil rights arguments, particularly by bodies such as the International Advertising Association (IAA)

SA is a latecomer to the fight Almost two decades after countries such as Norway banned the advertising of tobacco products outright, we are contemplating serious compulsory health warnings on cigarette advertising (as opposed to the low-key warnings now printed on packs)

Apart from the broad principles involved, the advertising industry complains there has not been enough consultation on an issue that will affect so many people's livelihoods Ad agency Lindsay Smithers chairman John Sinclair says "The procedure has not been marked by the principles of transparency and openness which the new government promised"

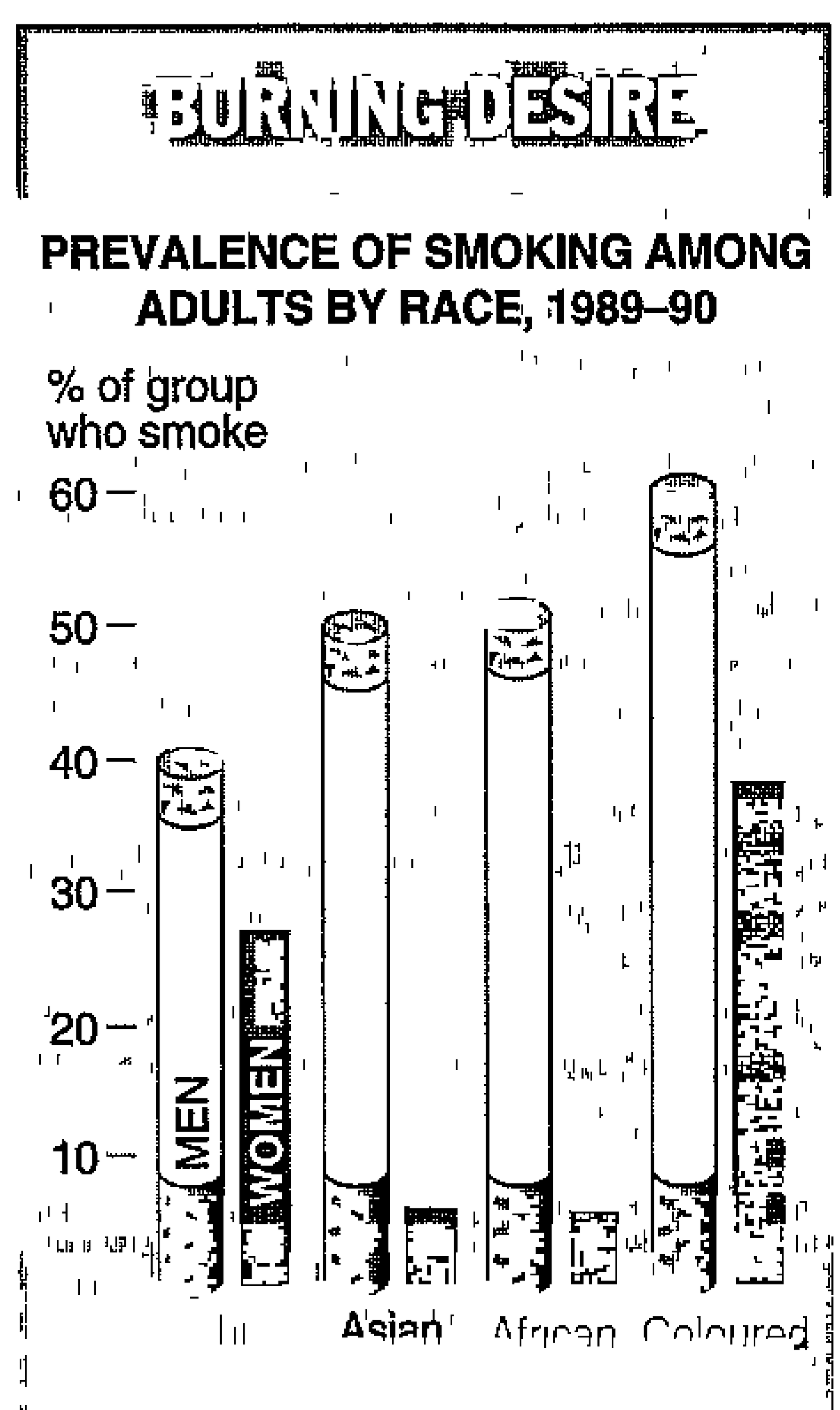
But the Department of Health says there have been meetings with the Tobacco Institute and its experts and they've had three months to comment on the proposed regulations — "surely sufficient opportunity and time?"

In a welter of argument, attention focuses on three main issues

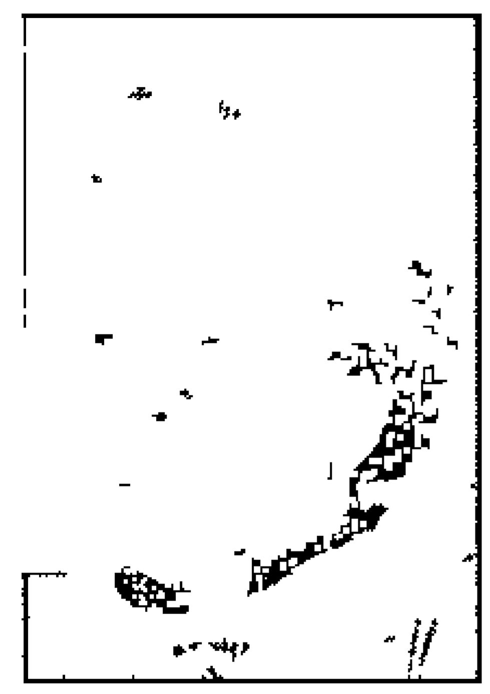
❑ Health As far as the various health bodies are concerned, the case is conclusive Evidence has continued to mount around the world that smoking is a health hazard and, claims Council against Smoking director Yusuf Saloojee, "the doubt exists only in the minds of the tobacco industry and its paid apologists" The *New England Journal of Medicine* March 1994 edition concluded that smoking kills more Americans than heroin, cocaine, Aids, alcohol, car accidents, homicides, suicides and fires combined (198)

The tobacco industry, however, is equally adamant that the case against smoking is unproven "The relationship between tobacco and disease is not known with certainty because the diseases are not exclusive to smokers," says Joppie Graham, chairman of the Tobacco Institute, the industry body "The medical world has identified about six tobacco-related diseases There are statistical associations between the occurrence of certain diseases and smoking but a causal relationship has not been established In the case of heart disease, there are 246 different risk factors, one of which is smoking,"

❑ Economic A fairly substantial industry is dependent on tobacco The argument is whether the benefits outweigh the costs



The Tobacco Institute notes that the industry contributed R1,7bn last year to the Exchequer in Vat and excise duties, employs 53 000 people, has capital investment of nearly R3bn and spends R175m a year buying a vast range of things from fertiliser to packaging


Zuma

But, says Saloojee, "we can't expect South Africans to pay with their lives and health for jobs in the industry"

Nevertheless, the health lobby has proposed other solutions "For example, you could set aside 5% of tobacco taxes to set up a health promotions trust This has been done in 11 countries and is used to fund sport, the arts, cultural activities and to compensate media for the loss of tobacco advertising But nobody has listened"

The tobacco industry spends R150m a year on advertising, less than 5% of total adspend But, as the table shows, some media are much more heavily dependent on tobacco advertising The National Association of Broadcasters (not only the SABC, as has been reported) was quick to ask for and receive exemption for a year from the regulations

This is welcome sympathy from the Minister of Health for the plight of affected media but it will anger those which have not gained exemption

Exemption was granted in response to the broadcasters' offer to carry R7m of anti-smoking advertising during the year, about five 30-second spots a day per station

Saloojee dismisses the threats by the tobacco industry to stop advertising as "sabre rattling They are dependent on advertising to sell their products So this is bluff" Derek Yach of the Medical Research Council claims the tobacco industry is deliberately exaggerating the possible effects "Nowhere in the world has the tobacco industry declined overnight," he says "I would be very happy to halve our smoking rate in 15–20 years"

Saloojee, Yach and Di McIntyre of UCT calculated in a 1992 paper, *Smoking in SA the health and economic impact*, that the economic cost of smoking-related diseases was R1,4bn in 1988, of which lost productivity accounted for 79% Against this, Wits University commerce dean Prof Dun-

Continued on page 24

MEDIA DEPENDENCE

TOBACCO ADVERTISING
12 MONTHS TO MARCH, 1994

Rm		% OF AD REVENUE from tobacco products
NEWSPAPERS	36,6	4,5
MAGAZINES	22,4	4,9
RADIO	48,6	10,8
CINEMA	12,5	41,0
OUTDOOR	23,0	19,6
TOTAL	143,0	4,8

on TV (R7,6m)

Continued from page 20

can Reekie argues that the net economic benefits from smoking exceed the claimed health costs by R2bn

The health lobby's calculations, Reekie charges, are "a conceptually flawed numerical exercise" which ignores such factors as manufacturers' profits and retailers' margins. Moreover, assuming that the link between smoking and disease is valid, he says that most of the social cost of smoking is borne by smokers themselves, not by society

Saloojee counters "The World Bank has ceased funding tobacco production activities because it believes the costs outweigh the benefits,"

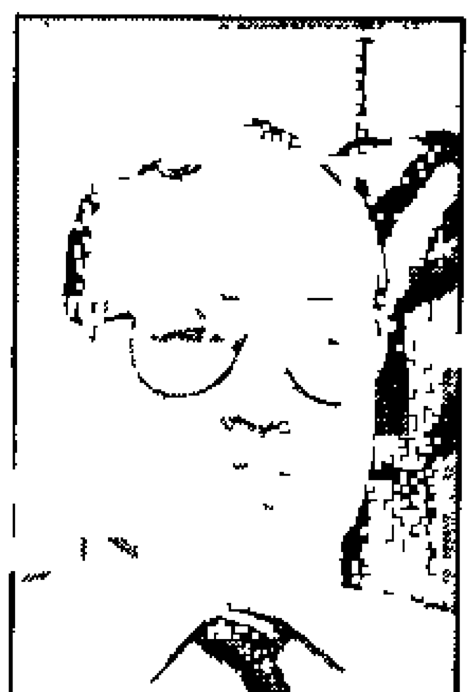
❑ Civil rights This is a complicated question that includes the right of advertisers to advertise (commercial freedom of speech), the right of consumers to be informed and to choose, and the right of nonsmokers to choose not to be assailed by second-hand smoke

FM 2/9/94 (198)

As long as a product is legal, surely it should be legal to advertise it without undue interference? Don't people have the right to go to the devil in their own way? If the Department of Health believes smoking is so dangerous a product, shouldn't it accept the responsibility to ban it rather than shift the burden on to some other body? Are there not many other activities which are unhealthy but are not banned by a nanny society?

"Bans on the advertising of tobacco and alcohol products are as much an authoritarian interference in freedom of lifestyle as censorship in the arts," says Dr John Gray, Fellow of Jesus College, Oxford, and an expert much-cited by the IAA "Prohibitions and over-regulation in advertising can be defended, if at all, only by the illiberal arguments used to justify authoritarianism in the past If we view ordinary people as weak, stupid and unfit to make their own choices, what justification is there for democracy?"

Fine, says Yach, but the information provided to the public heavily favours the tobacco industry Less than 1% of the value of tobacco advertising is spent on health messages Moreover, the legality of tobacco is "an accident of history Tobacco was widely used before the hazards were known but now 7m South Africans are addicted Freedom only works if you have full information"


Sinclair

The Medical Research Council does not argue for a ban on tobacco because this would simply "encourage a black market, like prohibition did in the US. We want to prevent young people from smoking"

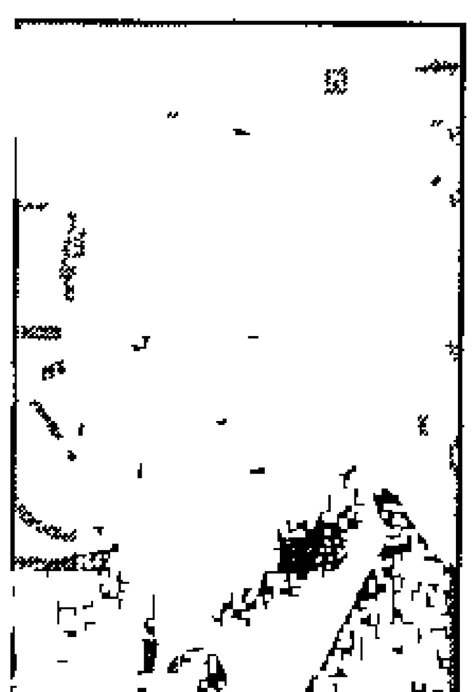
Saloojee says restrictions on the freedom of commercial speech are compatible with human rights "The European Community's Human Rights Charter allows restrictions on commercial freedom of speech to protect health"

And, he says, government has a legitimate right to require labelling laws Tobacco health warnings are now required in nearly 80 countries Ironically, this may well be in the interests of the tobacco industry because a smoker can no longer sue a tobacco company, claiming he took the risk unknowingly

The department is particularly concerned about its obligation to protect the health of children "Government action on behalf of the welfare of society is generally upheld as valid even if it runs counter to the interests of some individuals, especially when there is a compelling necessity for such action," says the department "The right to protect public health takes precedence over the freedom of the tobacco industry"

The rights of nonsmokers have in the past been somewhat disregarded but they can be protected without necessarily trampling on commercial freedoms — by, for example, legislating on smoke-free areas in restaurants and public facilities

One problem with the question of liberties is that there is no clear definition of the level at which a drug becomes socially unacceptable Nicotine and alcohol are drugs which are commonly and legally used, though they are not defined as drugs in terms of drug control ordinances


Saloojee

One thing is clear. This is not a subject to be approached carelessly The political correctness which Health Minister Nkosazana Zuma has apparently embraced with enthusiasm may well have its long-term virtues, it could also have severe economic effects at a time when the country has a desperate short-term need to retain jobs ■

Probe 'no threat' to Richemont deal

(198)
CT 11/10/94

Own Correspondent

JOHANNESBURG — Tobacco and luxury goods group Richemont, which acquired a 25% stake in Italian-based pay TV operator Telepiu in July, has dismissed claims that corruption scandals rocking the government of Italian Prime Minister Sylvio Berlusconi are threatening the group's investment

Richemont acquired the stake from Berlusconi's Fininvest for $180m as part of a plan to expand its media interests which already included a stake in FilmNet, M-Net's offshore pay-TV operation

Last week senior Milan anti-corruption judge Francesco Borrelli attacked Berlusconi whose party, Forza Italia, swept into power earlier this year

Borrelli called attention to Berlusconi's media empire as being a "conflict of interest" with his position as prime minister.

He said anti-corruption investigations could even focus on Berlusconi himself, who retained a 10% stake in Telepiu after the deal with Richemont

One of the current investigations into Fininvest's pay TV operation risked reaching "high levels in financial and political circles", the London-based Financial Times said

Richemont's media company, Ichor, which has the stake in Telepiu, said at the weekend that corruption investigations in Italy were "a daily occurrence"

Richemont was confident that a possible investigation into Berlusconi would have no effect on its investment.

Lion Match boosted by rise in interest earned

BIDay 2/11/94

BEATRIX PAYNE

SA BREWERIES' matches and consumer goods subsidiary Lion Match increased earnings 68% to 25,98c a share for the six months to September on the back of a rise in interest earned on its cash resources, Lion said yesterday

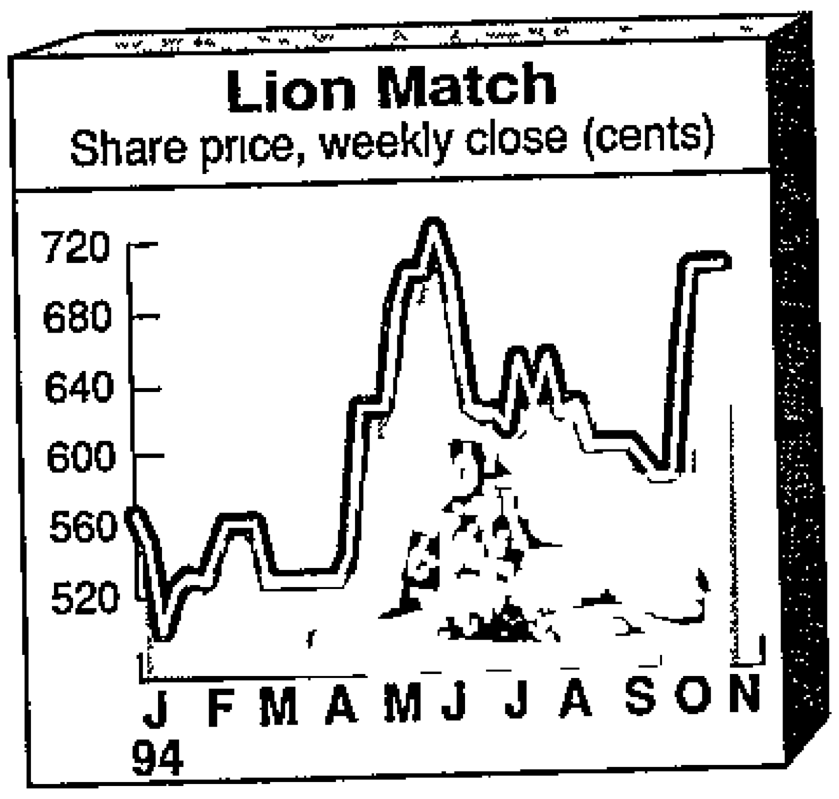
MD Ted Turner said he was "very happy" with the results, particularly as they were achieved in the face of the high level of unemployment and constrained consumer spending

The group was now sitting on a cash pile on deposit of R198,2m and was "evaluating an investment strategy" with a view to an acquisition in fast-moving consumer goods

"We have a number of alternatives but we have not decided which route to take," he said

"It would be very expensive to pay out as a dividend with the higher secondary tax on companies"

Turnover from continuing operations rose 11% to R76,7m But total sales for the period were down at R76,7m from R147,9m for the same period last year after the disposal



last November of former packaging subsidiary Interpak

Trading profit from continuing operations rose 12% to R13,6m, but as total trading profit it was down from R19,2m in the comparable period

Interest earned rose to R7,6m (R3,2m interest paid) after the Interpak disposal and led to a 32% rise in pre-tax profit to R21,2m

The group's tax bill rose to R9,4m (R6,8m) and after-tax profit jumped 28% to R11,8m.

No provision was made for equity-accounted losses, which cost the company R2,2m during the same period last year.

Attributable earnings rose 68% to R11,8m, which translated into earnings of 25,98c a share A dividend of 8c (6,15c) a share was declared.

Cash flow from operations increased by R3,7m to R22,6m after a decrease in working capital needs Interest-bearing debt fell to R16,3m from R38,1m last year (198)

The directors said local consumer demand was unlikely to show a significant increase during the remainder of the financial year and warned that earnings would show a "lower rate of improvement" than in the first half.

But if the success experienced in the group's export market continued, it would report a "very satisfactory" rise in earnings for the full year

The group lifted earnings 32% to 44,8c a shares for the year to March

Its shares closed unchanged at 700c on the JSE yesterday, with sellers at 725c This was just off their high of 750c reached in mid-June

The share price has climbed 18,6% or 110c in the past month

Lion Match well up

Star

CHARLOTTE MATHEWS

The growing success of its exports and the benefits of the disposal of loss-making Amalgamated Appliances helped lift earnings at Lion Match by 68 percent to 25,98c a share in the six months to September, compared with the previous year

Turnover from continuing operations — excluding Interpak Holdings, sold in 1993 — rose 11 percent to R76,8 million

Chairman Laurie van der Watt said yesterday private consumption expenditure had been constrained by inflationary pressure and the high level of unemployment

Trading profit grew by 12 percent to R13,6 million. Net interest earned of R7,6 million, against 1993's charge of R3,2 million, reflected the group's substantial cash balances Cash resources at the end of September were over R180 million

Without equity-accounted losses of R2,2 million from Amalgamated Appliances, attributable earnings were 68 percent higher at R11,8 million (R7 million previously0 An interim dividend of 8c (6,15c) is being paid. 2/11/94

Van der Watt said a satisfactory increase in earnings was expected for the full year, although at a lower rate than in the first half (198)

Tobacco warnings to be enforced

Own Correspondent

JOHANNESBURG — New health regulations, due to be gazetted on Friday, stipulate strong health warnings on top of tobacco print advertisements and on cigarette packs.

Medical Research Council spokesman Dr Derek Yach said the regulations, which were signed yesterday, would require that the warnings take up 12%-15% of each advert. Cigarette pack warning would have to take up 15% of the box

Strong warnings of the risks associated with smoking would also be broadcast on radio, and cinema tobacco adverts would be followed by a health warning

The new regulations and the date on which they will take effect, will be announced today

Dr Yach said Health Minister Dr Nkosazana Zuma should be commended for signing the regulations.

Dr Yach said the tobacco industry had expected tighter controls on tobacco advertising and had already moved into sponsoring sports and cultural events

A Tobacco Institute spokesman said the industry regretted that it had not been consulted on the regulations It had submitted its comments on the draft proposals, but its request for a consultation with Dr Zuma had not been met

Dr Yach said the new regulations were part of the wider Tobacco Products Control Act, which was passed last year The act outlawed the sale of cigarettes to children under 16 but this was not being enforced

CT 29/11/94 (198)

Rothmans may boost Richemont earnings

B/Day 29/11/94

BEATRIX PAYNE

GOOD results from Rothmans and a global improvement in luxury goods spending could see Rembrandt's offshore arm Richemont post a 20%-25% rise in rand earnings for the half-year to September, analysts said yesterday.

But the wild card for the balance sheet will be the extent of the group's losses in its media arm Network Holdings as a result of its investments in FilmNet and loss-making Italian pay-TV company Telepiu

One analyst said the losses in Filmnet were likely to be at similar levels to last year's During the year to March the group reported a loss of £25,7m in the division

But another analyst said losses for the year from the group's media interests were likely to be £39,7m at an average exchange rate of R5,5.

The group acquired its 25% stake in Telepiu after its March year-end Shortly after the acquisition it was reported that Richemont MD Johan Rupert expected the channel to take about four years to break even. But he was confident that the group could absorb the losses. (198)

The analyst said the group intended to put enough cash into the division to build up an entry barrier to its competitors and it was likely to turn profitable in about three years.

The group's main subsidiary Rothmans reported an 18% rise in earnings to £276m for the six months to September. Earnings a share rose 14,5% to 19,7p

One analyst described the results as above expectations. "We had expected attributable earnings to rise 8%-9% "

But another analyst said the 18% rise in earnings masked the fact that volumes during the six months had been "relatively stagnant". Turnover for the six months increased 4,3% but inflation in the UK was about 2% and improved sales in France were largely on the back of a price war which had driven prices upwards

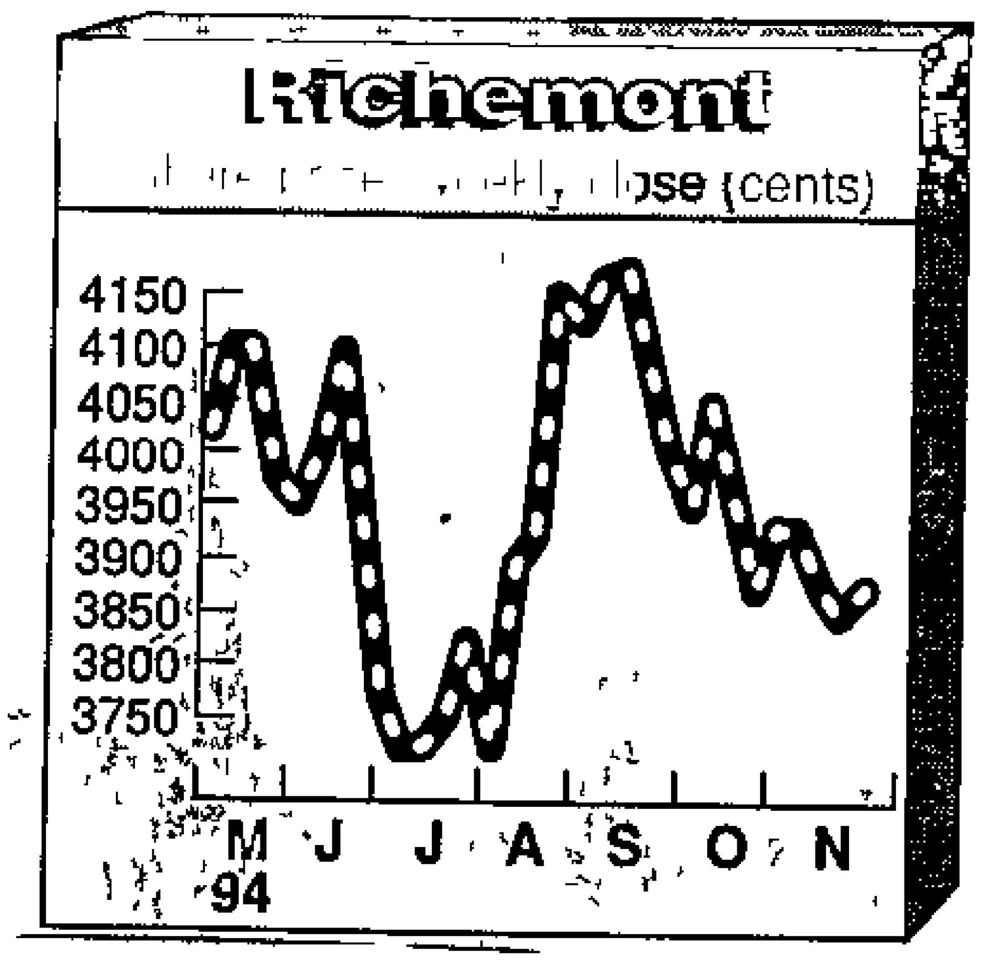
The group's luxury goods division Vendome had performed well in its markets in Japan and the US as spending on luxury goods increased, one analyst said.

Vendome was set to show a 15% rise in earnings for the year on the back of increased consumer spending in Japan and the Far East.

One analyst said the group's share price "performed quite badly over the last few years and did very little".

But another said the group's net asset value was now at an all-time high of 51,78c which — at current prices — made it a comparatively cheap stock

Positive sentiment on the back of Rothmans' results saw Richemont's share price close 25c firmer at R38,75



Call to hit smokers where it hurts most

JOHANNESBURG — Raising excise rate on the producer price of tobacco to 110% would enable government to at least double its revenue from the commodity, a University of Stellenbosch economist said yesterday.

Corne van Walbeek was addressing a conference here on research in economics, business management and manpower organised by the National Productivity Institute and the National Manpower Commission.

Van Walbeek said an increase in the producer price excise rate to 100% was in line with the government's stated intention of raising tobacco excise duty to about 50% of the retail price.

According to Van Walbeek's analysis, raising the tobacco excise rate could lead to a drop in consumption to between about 41% and 46%.

The equivalent figure for the USA was estimated at about 40%, he added.

Van Walbeek suggested the real retail price of cigarettes should rise by between 44% and 122% from their 1989 levels if government was to maximise tobacco excise revenues.

This form of government revenue implied only a small political cost because a tax on cigarettes and other tobacco products was seen as fair and acceptable by large sections of the population.

"Given the fiscal demands on the government and the already heavy direct tax burden, an indirect tax such as excise duty has considerable merit," he said.

Historically tobacco excise duties contributed significantly to government revenue in the post-war period until 1970, but total real tobacco excise revenues dramatically fell between the early '80s and 1987.

"Excise duties on tobacco products have dwindled from more than R1000m in the early '70s to less than R750m 20 years later. As a percentage of government revenue the decrease is even more pronounced."

During the '70s and the early '80s government failed to adjust the specific tobacco excise rate at regular intervals which in the presence of inflation resulted in a rapid erosion of the revenue tax base.

"It is clear that the government has neglected tobacco excise duties as a source of government revenue."

Prior to the '70s, inflation was insignificant and it was not necessary to adjust the nominal excise rate regularly. For this reason the real excise rate remained relatively constant, Mr van Walbeek said.

Prior to the 1994/1995 Budget speech excise duties comprised less than 20% of the selling price. In 1989 excise duties made up about 31% of the producer price of tobacco products.

"The very sharp decrease in the real tobacco excise rate is once again highligted by the fact that in 1981 — only 13 years ago — excise duties comprised more than 40% of the retail price of tobacco," he said.

(198)

CT 30/11/94

PROVINCIAL BRIEFS

Unions blamed for hospital conditions

ARGT 1|12|94(198)

MICHAEL MORRIS
Political Correspondent

BLAME for "scandalous" and "unhygienic" conditions in some parts of Western Cape hospitals, and a lack of discipline and productivity among workers, should be laid at the door of the ANC's union allies

Nationalist legislator Quarta du Toit said in yesterday's reconstruction and development programme debate in the Western Cape parliament that health care itself had become a very sick patient and a drastic cure was needed

The National Education, Health and Allied Workers' Union (Nehawu) and the Health Workers' Union (HWU) were threatening to "kill off" health services by embarking on a spiral of ever-increasing wage demands, and creating conditions in hospitals which had led to an increasing number of doctors leaving the country.

It was time for the ANC to "get tough" with its election allies

Milestone as downturn hits Remgro earnings

(198) ARG 1/12/94

TOM HOOD

REMBRANDT Group's earnings dropped R23 million or 4,3 per cent to R508 million in the half year to September — the first downturn in at least 20 years

But this did not spell a poorer performance It was the result of the unbundling of Gencor, which cost Rembrandt R52 million in loss of income from its investments in Engen, Malbak and Sappi, and its share of a R114 million writedown by Gold Fields of its investment in Northern Platinum

Turnover from net sales of products, fees, rental and investment income jumped by R253 million or 11 percent to R2 482 million and operating profit edged up R15 million to R548 million

Borrowings doubled to R702 million, so that the interest bill jumped to R45 million from R24 million

Remgro paid R244 million for 9,7 million shares in Huntcor, raising its stake to almost 83 percent from 66 percent

It also helped to foot the bill for setting up Vodacom's network, its share of the losses coming to R13,4 million

■ Almost 90 percent of shareholders have opted to take shares instead of cash dividends from **Seardel and Searcon**

The companies say 89 percent of Seardel shareholders will receive 522 242 new shares instead of the 17c final dividend More than 88 percent of Searcon's shareholders will get 259 670 shares instead of the final 17c

■ Improved trading conditions in the six months to September boosted **Metro Cash and Carry's** earnings by 28 percent to 24,4c a share

MD Carlos dos Santos said consumer spending was stronger as people felt more positive about the economy

Turnover was R3 billion compared with R2,8 billion previously, a seven percent increase which would have been 12 percent, but the latest figures covered six fewer trading days than in the same period in 1993

Mr Dos Santos said the expansion programme is progressing, with Metbuild planning to open a further six stores in 1995, which will bring it up to 18 stores

■ **Southern Life** is to sell its 50 percent share in the Medicor group of hospitals to **Medi-Clinic**

Executive director Arie van der Zwan said Southern would receive a meaningful stake in the enlarged Medi-Clinic hospital group in exchange for its Medicor holding

Medi-Clinic will now have 2 900 hospital beds and medical facilities covering most major metropolitan areas

■ **Housewares** is to buy 70 percent of mail order business Limited Editions, trading under the name of Glomail, for about R26 million

The deal will bring the Housewares Group to a turnover approaching R250 million ırt

Rembrandt earnings slide 4,3%

(198)

CT 1/12/94

By ARI JACOBSON

THE Rembrandt group's attributable earnings, from normal business operations, declined by 4,3% to 97c,3c (101,7c) in the interim period to September as a result of the Gencor unbundling and its investment in cellular network Vodacom.

Excluding these influences, the group increased profits by 10,3% to R461m (R418m).

Earnings increased by 2,4% to 81c (79,1c) a share — when excluding the share of retained income of associates.

Rembrandt has already announced and paid an interim dividend, which increased by 15% to 19,6c (17,04c) in the six months to September.

The directors point out that the unbundling of Gencor meant that major stakes in Engen, Malbak and Sappi are no longer equity accounted, with only the dividends accounted for as income. The unbundled Gencor will, however, be equity accounted.

In the previous six months, the group included the attributable portion of Gencor's results prior to the restructuring and hence the sharp R52,6m or 87,5% drop in this portion of earnings to R60,1m (R112,7m)

In addition the funding of Vodacom, currently incurring start-up losses, has meant an added R13,4m cost in the period under review.

Turnover — consisting of product sales, excise duties, rental and investment income — grew by 11,3% to R2,48bn (R2,23bn).

The group did not incur any secondary tax on companies (STC) for the period under review, but a transitional levy of R24,3m was included in the total tax liability.

Extraordinary items, not included in net income from normal business operations, amounted to a negative amount of R123,3m — from the write down of the Gold Fields of SA investment in Northam Platinum.

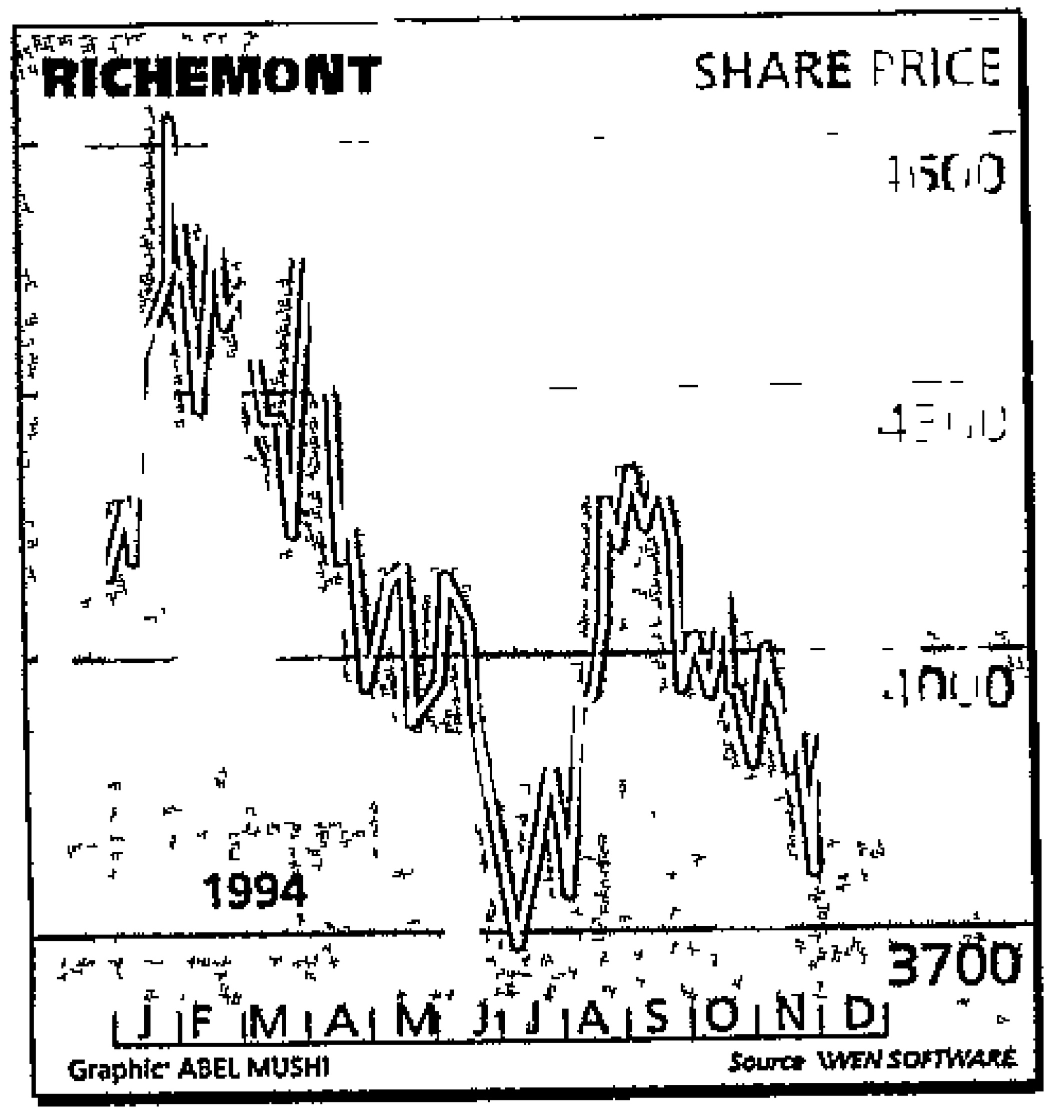
Capital commitments, including those authorised but not yet implemented, stood at R83,1m compared with the R328,5m for the previous period last year.

In October the group increased its stake in Huntcor from 65,9% to 82,9% but this had no affect on the normal course of business for the six months to September 1994

- Rembrandt Controlling Investments also showed a decline of 4,3% in net income, from normal business operations, at 72c (75,3c) a share for the six months to September.
- Technical Investment Corporation's earnings declined from 66,1c to 63,2c a share, while Technical and Industrial Investments earnings dropped from 70c to 67c a share.

Richemont's tobacco interests hold up well

Star 5/12/94



BY CHARLOTTE MATHEWS

Tobacco and luxury goods group Richemont improved actual earnings in the six months to September 1994 by 17 percent to £19,64 a unit and, after restating to eliminate distortions, by 14 percent to £20,17 a unit

Although the contribution of Richemont's tobacco interests to net sales revenue dropped to 68 percent from 70 percent, tobacco's contribution to operating profit lifted to 72 percent from 71,5 percent

Development costs took the operating loss from the media interests to £16,1 million from £8,2 million. Richemont has 50 percent of Network Holdings SA and acquired 25 percent of Telepiu in June.

Profit before tax moved up 13,5 percent to £352,9 million (£310,9 million) but the tax rate lifted on higher tax paid by the tobacco businesses

Attributable profits were £112,8 million from £96,6 million but, if restated to eliminate exceptional items and the amortisation of goodwill, would have been £115,8 million (£102,0 million).

MD Johann Rupert said the volume of tobacco sales by Rothmans International group companies were slightly higher than a year ago, reflecting gains in Japan and the UK but a decline in Africa. (198)

Vendome, the luxury goods arm, reported higher turnover in all major product lines in spite of unfavourable exchange rate movements. The major source of growth for luxury goods was the Far East, with sales 15 percent above a year previously

Rupert said trading results from tobacco for the year to March 1995 were expected to be satisfactory although trading conditions remained difficult Rothmans International will also show a £21-million gain on the sale of properties in Singapore

Vendome's results for the full year should show sustained growth in most major markets More investment will be needed to develop Richemont's media interests, especially the Central and Southern European services of Network Holdings

Initial test drilling by

result of the dividend election

Richemont set on growth path

BDay 5/12/94

AMANDA VERMEULEN

SWISS-based Richemont — benefiting from higher profits in its luxury goods and tobacco divisions — reported a 13,5% improvement in attributable profit to £115,8m in the six months to September.

Earnings a unit increased to £20,17 (£17,76). Net sales revenue rose 7,6% to £1,9bn, while operating profit before goodwill amortisation grew 11% to £339m. Richemont's share of Rothmans International's European rationalisation programme amounted to £4,5m at the attributable profit level.

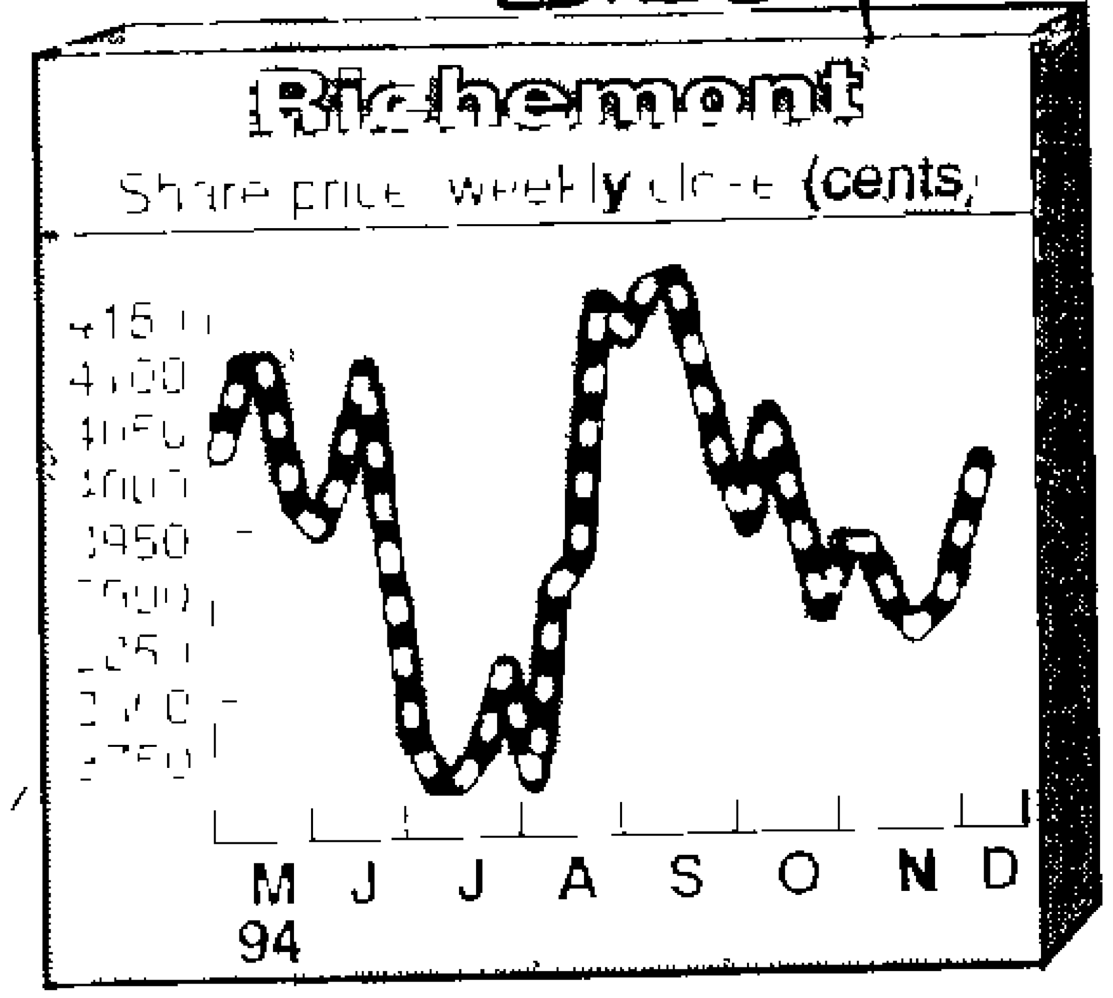
Net sales revenue from the tobacco interests increased £52,7m to £1,3bn, largely as a result of price increases.

Operating profit from tobacco subsidiary undertakings increased 15,1% to £249,5m.

Both the Europe and Asia regions reported improved profits, while results in other regions were marginally below last year's levels.

Improved market conditions in many of the group's major markets saw turnover from luxury goods increase, despite unfavourable exchange rate movements.

US-based direct retailer Hanover Direct increased revenue 37% in the first half of its financial year to $364,3m, mainly due to in-



creased sales from one of its catalogues and revenues from the joint venture with Sears, Roebuck & Co.

198

Richemont's media interests were expanded in June with the acquisition of a 25% stake in Italian pay TV operation Telepiu.

It also owns 50% of Network Holdings SA, which in turn is represented by wholly owned subsidiary FilmNet, a satellite pay TV operation in the Benelux and Scandinavian countries.

Losses from FilmNet rose only slightly in the period following continued subscriber growth in all territories.

Operating losses at Network Holdings increased as a result of the level of investment made in developing the business in a number of new areas.

Pay TV operations were launched in Cyprus during the interim period, and in Greece and Poland in early November.

The group's results also included its share of Telepiu's results for the three-month period after the acquisition.

Goodwill increased £155,5m to £179,4m as a result of the group's purchase of the 25% stake in Telepiu. "Richemont's policy is to capitalise goodwill and amortise it through consolidated profit and loss accounts over 20 years," the report said.

It was expected that the tobacco interests' results would be satisfactory for the remainder of the year despite difficult trading conditions.

The luxury goods interests should reflect sustained growth in most major markets.

In the group's media interests, additional investment would be required to develop and expand these companies.

requirements was likely to hold few surprises as most were already im-

SA's banking sector — nearly all had adopted the new disclosure requirements, to the extent that, for in-

Remgro looking beyond cigarettes for expansion

B/Day 6/12/94

AMANDA VERMEULEN

THE Rembrandt Group (Remgro) was likely to expand its energy and natural resources holdings rather than its cigarette interests, which were under threat from increased excise tax and strict advertising regulations, analysts said yesterday.

Remgro was sitting on a R1,3bn cash mountain which they said gave it the capital to make further acquisitions or expand existing interests.

But opportunities for the group were limited in SA, while the option of offshore expansion was hampered by exchange control restrictions.

One analyst said there was little incentive for the group to expand its cigarette operations and it was unlikely to push into regions covered by Richemont and Rothmans. He said the group would probably also look at re-establishing its overseas base.

He said the group was hoping for exchange controls to be abolished so it could investigate offshore expansion opportunities. But he cautioned the country's low reserves made any significant investment unlikely.

Among the remaining options was to expand its stake in Sappi and Malbak to acquire a more meaningful shareholding However, a more likely scenario would be expanding its energy interests, he said.

"Remgro is more than eager to help Engen finance any expansion plans it may have. The group will probably focus on key areas outside the cigarette market, with a particular emphasis on energy and natural resources, represented by Sappi."

Malbak remained the odd man out, but another analyst said there was still much scope for some rationalisation with Remgro's stake in Huntcor. The group announced last week that it had increased its stake in Huntcor to 82,9% from 65,9%.

"The group's failure to influence government significantly over cigarette advertising indicated it did not have the same influence as it had with the NP government.

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The effect of advertising restrictions, coupled with increased excise taxes and a 3% decline in cigarette consumption, would force the group to look elsewhere."

BUSINESS DAY, Monday, June 13 1994 3

Farmers fear tobacco tax

EDWARD WEST

CAPE TOWN — Most SA tobacco farmers would go out of business if there was a large hike in tobacco excise duties, the Tobacco Exchange said at the weekend.

Economist Andre Sieberhagen said farmers had already lowered production levels to the lowest point of commercial viability, due to a surplus on world markets.

SA producers, who could not sell all their production locally, exported some 35% of their crop last year at big losses. Farmers would attempt to bring production down to about 25-million tons from 34-million last year and 36,6-million tons in 1992, he said.

But the main threat facing farmers was the prospect of government raising tobacco excise duties by about 100%.

Sieberhagen said this would force local cigarette manufacturers — who were under no obligation to buy local tobacco — to simply import more tobacco at half the price (and a 15% import duty) to offset the effect on market share of the excise duty hike and lower cigarette sales.

This would force overall tobacco production volumes lower.

"The situation is critical, some 250 000 people are directly and indirectly employed in the industry. We have to accept an increase in excise duties is inevitable, but a 100% increase will mean the end of most of the producers."

(198)

Sieberhagen said world overproduction of tobacco was expected to persist until the end of 1996 — potentially three years of losses for SA farmers.

Last year local tobacco consumption amounted to 39,2-million tons, a 0,7% decline on 1992.

TOBACCO

ARG 8/7/94 (198)

A taxing question . . .

The increased excise duty on tobacco products announced in the Budget sparked immediate controversy. Was it too much or too little? Argus Correspondent DAVID ROBBINS examines some of the issues.

THE excise increases didn't amount to a great deal — 14c on a packet of 20 cigarettes — far less than had been advocated by many health experts involved in the compilation of the ANC's national health plan

Yet from the tobacco industry came a howl of indignation An "established and legitimate industry and its customers" were being discriminated against, said Tobacco Institute of Southern Africa chairman Joppie Graham

On the other hand, health experts who had been anxious to discourage the habit, especially among young people, complained that the excise increases were too low to boost revenue for a public health sector increasingly saddled with the costs of smoking-related diseases

The two central issues around which the controversy revolves are clearly the health implications of smoking and the wellbeing of the tobacco industry itself.

It's a sizeable industry which employs more than 50 000 people in tobacco growing, co-operatives and manufacturing. In 1993, about R1,7 billion was raised through excise and VAT on tobacco products — and, according to the Department of National Health, more than R200 million was spent on advertising.

Dr Krisela Steyn, head of the division of Chronic Diseases of Life Style at the Medical Research Council in Cape Town, says this advertising is increasingly being aimed at women, youth and black people

The central question to be asked is simply: is it an industry worth protecting Professor Max Price, director of the Wits-based Centre for Health Policy, says there is no reason why tobacco taxes should not be drastically increased immediately since South Africa's taxes are among the lowest in industrialised countries

Howard Barnum, a senior economist with the World Bank, says bluntly "Tobacco is too great a problem to be left to the health sector alone It is necessary to convince ministers of finance that controlling the consumption of tobacco is not only good for health but an important policy for their countries' economic prospects as well. The message which I hope to convey is that tobacco use is an economic disaster globally"

This is how Barnum does his sums. Using figures issued by the US Surgeon General, Mr Barnum calculates that "one ton of tobacco consumed causes about 0,65 deaths, with an average lag of 25 to 30 years" He then adds the cost of morbidity and mortality, and comes up with a balance sheet which shows the benefits (to producers) and costs (to individuals and societies) of tobacco consumption. Needless to say the net benefits are always written in red

"Using this approach," Mr Barnam says, "we can say with certainty that the world tobacco market produces an annual global loss of 200 billion"

Tobacco tax: The Canadian experience

(198) WM 10-16/6/94

IN the *WM&G* of May 27 to June 2 Stuart Sutherland, identified as managing director of United Tobacco, authored an opinion against increasing tobacco taxes He concentrated on putting a tobacco lobby "spin" on the Canadian experience with tobacco taxation

Perhaps he forgot that South Africa is no longer cut off from the outside world and that comments made in its newspapers can easily be verified Since he referred to my country, and to me personally, I would like to be part of the verification

In the early 1980s Canada had tobacco taxes well below the levels experienced in places like Western Europe During the next 10 years Canada increased its tobacco taxes quite significantly for a combination of health and revenue reasons

From 1982 to 1992 per capita cigarette consumption (including the highest credible estimate of smuggling) fell by about 40 percent, and consumption among young people, who are recognised as particularly price sensitive, fell even more dramatically During the same time the taxes generated per pack increased dramatically and, despite the huge drop in sales, the total taxes generated by tobacco increased more than threefold

Smuggling from the United States did become a problem and resulted, earlier this year, in tax reductions by our federal government and half our provinces while we await proposed large increases in tobacco taxes in the US But any inference that Canada's rollback is a reason for South Africa to accede to the tobacco lobby is pure nonsense In fact, Canada's "lowered" tobacco taxes are still much higher than South Africa's proposed "higher" ones

Most importantly, Canada's smuggling problem was almost entirely fed by Canadian-based tobacco companies shipping their products to US border communities, from where the smugglers returned them to Canada Maybe the folks at United Tobacco think that similar corporate misbehaviour would be allowed to undermine the health and fiscal policies of the new South Africa If so, they will almost certainly find that Canada's strong measures to punish such behaviour, including a large surcharge on tobacco company profits, will seem mild by comparison

If there are legitimate reasons why South Africa should not force tobacco companies to pay a fair share in the development of your country, I am unaware of what they are Given the sort of reasoning Sutherland used, it appears that he also does not know of any **— David T Sweanor, senior legal counsel, Non-Smokers' Rights Association, Toronto**

Apartheid's tools

THE South African Congress of Democrats recruited me in 1953 I spoke at the Congress of the People in 1955 and the regime arrested us for treason in 1957 The first timing device for Umkontho weSizwe was of my design My family and I were forced into exile in 1960 I graduated on to the executive committee of the South African Congress of Trade Unions

Since the Kabwe conference of the ANC I have been an active ANC member and rendered such technical advice and assistance as was possible During the past seven years I have been working full time for the movement, including a period for the underground. I have been a loyal musket bearer who found himself uncritically defending many trenches and citadels The principles I have fought for all my life have not changed

I cannot agree with the decision, reported widely in the press, that the new South Africa will have a bigger army I cannot agree that we will expand the making and selling of arms

Apartheid was built on a culture of solving problems by force We have never done that We have founded the new South Africa on a culture of discussion and reconciliation Let us not revert to the law of the apartheid jungle

Yes, we must be able to defend ourselves, but let us clearly define the enemy and make our army as small as possible The large standing armies of Ethiopia, Somalia, Yugoslavia and other countries were started to cut unemployment and ended up being used for killing children and raping women

Armaments are a special sort of tool They can only be used for killing and destroying, nothing else There are enough such tools in the world already The arguments now put forward to defend the expansion of the arms trade and militarism we rightly opposed in the past **— RE Press BSc (Chem Eng Wits) PhD (Wits)**

MANUFACTURING — TOBACCO

1995

Waltons 'will lift earnings to R40,5m'

BD 7/2/95

YURI THUMBRAN

WALTONS is expected to lift earnings to R40,5m (R35,2m) for the year to February (198)

An analyst said turnover was expected to rise to R964,7m (R861,3m) Earnings a share would probably increase to 59,7c (51,5c), while the dividend was likely to increase to 20c (17c) covered three times

He said corrective action taken at 60%-owned Redgwoods, the toy and baby retailer, and the return to profit of drawing office supplier Ozalid, were expected to have a positive impact on earnings growth

Chairman Frank Robarts said Waltons was ahead of its budget.

However, as a result of the sale of CNA's 24,3% stake in the company to Pepkor, it was likely earnings would be held back

BD 13/2/95 (198)

Tobacco industry woes set back Utico

MARCIA KLEIN

UTICO Holdings, which last year sold its Willards snack division to become a focused tobacco products group, reported sharply lower earnings for the year to December.

The 37% drop in attributable income to R23,4m (R37m) reflected the effect of the sale of Willards as well as an extremely difficult year for the tobacco industry. Utico's major tobacco products include Benson & Hedges, Winston and JPS, pipe tobacco, cigars and snuff products.

The group sold Willards to National Brands for R421,3m, effective from May 31, and Willards' results, which had been reported separately, were incorporated only for the five months to end-May.

The 25% decline in group turnover to R453,3m (R606,9m) reflected the fact that Willards made no contribution in the second half. Turnover figures included a marginal rise in United Tobacco's sales to R345,8m from R338,1m previously.

A 74% drop in operating income to R17,7m (R68,2m) included a 71% slump in United Tobacco's operating income to R13,8m from R46,9m. Directors said one of the factors leading to the lower trading margin was that manufacture selling prices had lagged inflation.

Interest received of R25,7m (R2,3m paid) arose from the investment of the proceeds of the Willards disposal, reflected in extraordinary items of R297,2m.

This brought pre-tax income to R43,4m, 34,1% lower than the previous year's R65,9m. Utico paid an effective 46% (43,9%) tax.

Earnings were 386c a share from 608c a share in the previous year. Apart from a previously announced special dividend of R52 a share, directors declared a final dividend of 68c (233c) a share, covered two (1,7) times. This brought the total dividend for the year to 197c (365c) a share.

The tobacco industry had experienced "an extremely challenging and difficult" year, the group said.

Events leading up to the election and "a substantial increase in retail prices to fund the higher government excise duty imposed in June" affected distribution and promotion of tobacco products "and caused the total cigarette market to decline further". These conditions were evident in United Tobacco's performance.

To coincide with the increase in excise and the introduction of widened price bands, United Tobacco launched Players Gold Leaf, which was priced 50c below the usual price for a pack of 20. An aggressive marketing campaign "to vigorously promote brand awareness and develop market share" was launched. Further steps were also taken to improve productivity.

After first-half stocking up in anticipation of the excise increase, trade inventories were corrected in the second half.

On Friday the share lost 100c or 3,9% to close at R24,50. It traded at a high of R125 in April. Last month, after the special dividend, it dropped R64 or 74,4% to a R22 low.

Analysts have for some time expressed concern about the possibility of legislation which could adversely affect the tobacco industry. Now that Willards had been sold, Utico was completely exposed to factors affecting the tobacco industry without being able to rely on other interests to offset these factors.

Utico had said the sale was prompted by concern that Willards was not well placed to be competitive internationally in a post-sanctions era.

Liquor, tobacco price rise likely in new Budget

ALIDE DASNOIS
Deputy Business Editor (198)

TOBACCO and liquor are likely to be more expensive after the March 15 Budget, says Sanlam chief economist Johan Louw. ARG 20/2/95

He says Minister of Finance, Chris Liebenberg, can be expected to raise excise duties on liquor and tobacco.

A moderate increase in the VAT rate is also a possibility.

And more bad news for consumers could come from a hike in the fuel levy which will raise the cost of petrol.

But there's good news on the way too, says Mr Louw people in lower and middle income groups can expect lower personal taxation from Mr Liebenberg's first Budget

The government will probably not be able to implement the Katz Commission's recommendations in full, Mr Louw says, because this would cost about R3 billion in revenue. So only limited tax relief is expected

The minister will probably be looking to people in higher income brackets to make up for any decreases in tax on the less wealthy.

Mr Louw expects the government deficit to total R27,5 billion, or 6,2 percent of Gross Domestic Product (GDP). This is less than the budgeted 6,6 percent

Tobacco under fire as share figures fall

(198)

BD 23/2/95

MARCIA KLEIN

SA's tobacco industry faces a tough year with the prospect of a hike in excise duty and the additional cost of having to place health warnings on cigarette packs.

Analysts said they believed that although these factors would not affect consumption too severely, there would be pressure on volumes and margins

Local cigarette consumption dropped more than 3% in the year to March 1994, and this trend had been continuing

They said a major contributor to higher prices — and slightly lower demand — was excise duty.

In the June Budget, excise on cigarettes went up by 7c for 10 cigarettes — a 25% increase. An analyst said consumers had been faced with two price hikes during the course of 1994, and when the Budget was announced next month another hike could be expected.

Apart from excise, tobacco companies were faced with new health warning stipulations which would add to the manufacturing price.

Utico, whose major products are Benson & Hedges, Winston and JPS, last week reported sharply lower earnings for the year to December. It said the tobacco industry had an extremely difficult year.

The company, which has sold its snacks division to become a focused tobacco group, said retail prices were higher in order to fund the higher excise duty.

An analyst said there were two significant features in the results — the launch of a new discount brand and a significant increase in advertising spend. These two features had pushed the company into a loss in the second half.

Market sentiment on the two companies is reflected in their share prices Utico closed yesterday at R18,25, just off its low of R18. But the share has lost 24% in the past month and is down from a R125 high in April last year

Rembrandt Group lost 25c to close at R25,50, from a March high of R34,50 and an August low of R23,50. The share has gained 2% over the past month.

CIGARETTES and ALCOHOL

Smokers have to cough up an extra 17c a pack

TYRONE SEALE
Political Staff

ARG 15/3/95 (198) (182)

FROM today smokers will have to cough up about 17c more for a pack of 20s as the government gives effect to arguments from the health lobby.

Elsewhere on the "sin tax" front, drinkers are likely to be dispirited about having to pay about 2c more for a 340ml can or dumpie of beer — not including sorghum — and about 5c more for a bottle of whisky, brandy or gin.

With immediate effect, the excise duty on cigarettes has been raised by 8,44c for 10, resulting in an estimated retail price increased of six percent.

Higher excise duty on cigarettes and cigarette tobacco is expected to add about R200 million to state coffers.

The budget review said in the case of tobacco products, the health community had demanded an increase in excise duty to 50 percent of the retail price, which was the levy in many other countries.

"After consultation with all interested groups and taking into account industry-specific limitations and market conditions, the government has opted for a phased approach, as announced in the 1994 budget, and as also reflected in this budget Future budgets will have to deal with the remainder of this issue."

Boost for house subsidy plan

Political Correspondent

(123) ARG 15/3/95

THE 79,9 percent increase in the housing budget will grease the wheels of a planned subsidy scheme.

While the housing budget provides for expenditure of R1,554 billion, of this R1,520billion is tied up in current and capital transfers to housing support.

The total amount of R2,924 billion for housing includes R1,404 billion from the Reconstruction and Development Programme fund.

The RDP funds will be allocated to the nine provinces to finance housing projects according to criteria to be decided by the government function committee for housing

A further R185 million from the RDP vote is to be allocated to special residential urban renewal projects.

The government's aim is to be able to supply thousands of people with housing subsidies.

A scheme will encourage banks to give credit to people with good savings records to make up the difference and enable them to build houses.

A sticking point so far has been to secure agreement from the construction industry to a building warranty scheme.

The housing budget announced today is seen as a signal to the industry that the government is committed to its goal of a million houses in five years.

Reliable sources indicated that two percent of the budget would be just right for current housing goals, because the infrastructure does not as yet exist to cope with faster growth

Cigarettes, alcohol will cost you more

(198)

POLITICAL STAFF
CT 16/3/95

FINANCE MINISTER Mr Chris Liebenberg has added a massive 17c extra excise duty on every pack of 20 cigarettes, as the government continues to bow to pressure from the health community

And the wine industry has also been hit, as the government moves to end the privileged position it held under National Party rule.

Presenting his budget, Mr Liebenberg added 16,88 cents to every packet of 20 cigarettes — an increase of 25% which will nett R200 million for the exchequer.

Cigarette tobacco increases by 10,62 cents for 50g and pipe tobacco and cigars by 80c/kg

With regard to the increase of about 5c on a 750ml bottle of unfortified wine, the Minister said the state believed that adjustments in excise duties "did not keep pace over the years with rates applicable to other alchohol-based products", and it had been decided to adjust these rates accordingly

The duty on fortified wine increases by 16,15c a litre — about 12c a 750ml bottle, and sparkling wines by 21,49c a litre, or about 16c on a 750ml bottle

The change in duty for all wines amounts to 25%, and will bring in R19 million to the fiscus

The Minister also announced a 6,5c increase in duty on a litre of beer, about 2c on a dumpie, and R1,80 a litre of "absolute alcohol", which will add 58c to the price of a 750ml bottle of spirits

"Excessive"

On sorghum beer, the increase amounts to 5c a kilogram, bringing in an additional R7 million in revenue

The health budget allocates a sum of R120 000 for the Campaign Against Smoking

The Tobacco Institute of South Africa warned that the tax increases on tobacco products were "excessive and exorbitant" and may lead to job losses.

ALL FIRED UP: City tobacconist Mr Falkie Berger is fuming over the increase in the price of cigarettes announced yesterday — a packet of 20 will cost 17c more.
PICTURE: ALAN TAYLOR

The National Council Against Smoking also slammed the new tobacco taxes, saying they were "derisory" and continued to "reflect a conflict between the government's fiscal and health policies"

ST. 16/4/95 (BT)

Cigarette group feels the pinch

(87) (198)

HIGHER excise duties on cigarettes and soaring contraband sales have forced the Rembrandt group to consider closing its factory in Industria, west of Johannesburg, writes **DON ROBERTSON.**

The company is holding talks with the relevant unions regarding the jobs of about 200 workers and head-office staff

"Continuing pressures from the government, especially from the health and tax authorities, have forced us to consider this move, which has come on top of a market which has been declining for the past three years," said Hans Knoetze, Rembrandt's communications director.

"In an effort to supplement its tax revenues and to discourage the consumption of tobacco, the government announced two increases in excise of 25% each within the last nine months. Another factor is the high incidence of contraband"

The Industria factory produces mainly American-style cigarettes, such as Chesterfield, which are being smuggled in from neighbouring countries, says Mr Knoetze

A car boot full of cigarettes imported illegally and sold on the local market could yield a profit of R400 000, he says

Insider probe into offer for Rothmans

(198) ST (BT) 23/4/95

By JOHN CAVILL

THE London Stock Exchange has launched an investigation into insider trading on a suspected leak of Richemont's £1,6-billion offer to buy out minority shareholders in its 61%-owned tobacco giant Rothmans International

Frantic trading, with 3-million shares changing hands, saw Rothmans price jump 41p to 529p before the LSE effectively suspended trading on Thursday and Richemont was forced to announce it had bid before final details had been agreed.

While market analysts had expected Rothmans might pay a special dividend to give shareholders some of the group's £700-million cash mountain, none suspected Richemont would try to buy them out.

Both companies made a holding statement that negotiations were taking place, and after the market closed the offer of 625p was announced. By then Rothmans had hit 606p on turnover of 4,5-million shares — yielding a profit of 24% to anyone who bought the shares at the previous closing price of 488p.

Richemont's motive for the bid is seen as part of the expansion of its international pay-TV empire Taking over Rothmans will give Richemont the tobacco group's entire cash flow — £300-million a year

Nethold, the Dutch-based pay TV group which Richemont owns 50 50 with M-Net International, said it would spend "several hundred million guilders" on increasing its subscribers. Nethold says 200-million households will be subscribing to pay TV by the year 2000

Richemont buyout bid fails to inspire

(198)

MARCIA KLEIN

RICHEMONT's offer to buy out minorities in 61%-held Rothmans has been well received in the market, but the share dropped 50c in the past week to close at R40 yesterday.

Analysts said they were surprised the share had lost 50c as the deal was an excellent one for Richemont.

"It seems that the market does not understand the deal," an analyst said.

It was accepted generally that groups should keep cash cows wholly owned, and Rothmans was a significant cash generator. Richemont would have access to more than £300m a year of spending power by being able to channel Rothmans' surplus cash flow where it wanted

"Rothmans' expenditure needs are relatively small, but there is plenty scope to fund its pay TV operations which are a bottomless pit as far as cash utilisation is concerned," an analyst said Richemont and M-Net control European pay channel FilmNet, and Richemont also has a 25% stake in Italian pay-TV operator Telepiu

Richemont could also divert some cash towards expansion of its US direct retailing arm, a small but growing business.

An analyst said the deal was excellent for Richemont, because financing terms were favourable and because it would benefit in the longer term by having the cash cow in the holding company.

Analysts said minorities were expected to accept the offer, which was at a premium to its market price over recent months.

AP-DJ reported Richemont said it would need about three years to pay down Rothmans' outstanding debts of about £1,1bn After that, the £250m to £300m Rothmans generated in annual profit would be redirected to build Richemont's network of pay-TV companies in Europe and Africa.

BD 25/4/95

It was reported at the weekend that the London Stock Exchange was investigating insider trading as 3-million shares changed hands last week before the announcement of the deal. But it is not known if a similar probe will be launched in SA.

Last week Richemont was the most traded share on the JSE in value as 1,9-million shares worth almost R76m changed hands in 267 deals

The securities regulation panel said it could not make public its investigations, but market sources said the authorities were expected to react.

Dispute over cigarette price

(198)

MARCIA KLEIN

BD 9/5/98

UNITED Tobacco Company has reacted strongly to claims by National Council Against Smoking executive director Yussuf Salojee that industry pricing policy, and not excise duty, was behind the recent sharp increases in cigarette prices

Salojee had said that "only 31c of the recent R1 price hike went to government coffers"

"Manufacturers did not benefit at all from this increase as the small remaining balance of 3% was appropriated to assist the wholesale and retail trade," said Tobacco Company corporate affairs manager Hilary Thomson.

Row threatens after tobacco price change

(198)

Marcia Klein BD 29/5/95

DISAGREEMENT over the level and the cause of tobacco price increases has left both the tobacco industry and anti-tobacco lobby smoking mad.

It was reported earlier this month that National Council Against Smoking executive director Yussuf Salojee said the retail price increased by R1 to R3,57 between June last year and April. "Of this increase, 31c was due to a rise in excise taxes, the remainder was for commercial purposes."

But the Tobacco Institute of Southern Africa and United Tobacco Company said there had been no "R1 recent increase" as claimed by Salojee.

In fact, the average recommended retail price of a pack of 20 cigarettes increased by only 20c (to R3,30 from R3,10) following the increase of 16,9c per 20 cigarettes in excise duty announced in March. Apart from excise, 2,5c of the increase also went to government in VAT.

The Tobacco Institute said the retail price had increased to R3,30 in March from R2,37 in April 1993, a 93c increase over a period of two years Of this, 50,1c went to government in the form of excise and VAT

Salojee said the continued decline in jobs in tobacco farming "is due to the inability of this sector to compete on the local and international markets" He added it was more profitable for SA manufacturers to import tobacco to meet local demand

But the Tobacco Institute said SA manufacturers had an agreement with with local farmers, through the various tobacco co-operatives "to buy up to 80% of their leaf requirements locally"

But specific grades of tobacco were not available in SA, and had to be imported to satisfy local market requirements

"In view of the declining rand and the fact that world tobacco prices are 32% higher in dollar terms than a year ago, local producers' competitiveness on the world market has increased"

Tobacco legislation takes effect

BD 31/5/95 (198)

Kathryn Strachan

TODAY is World No Tobacco Day. D-Day for displaying the new health warnings on all tobacco advertising, whether in print, in the cinema, on billboards, on television or radio.

Medical Research Council representative Derek Yach said yesterday that tobacco companies had taken down the signs on billboards, rather than display the legislated health warning.

Many signs had been replaced by health messages warning the public on drinking and driving.

He urged the public to press charges if they came across contraventions of the new legislation.

The Health Department has also introduced a free phone quit line from today. It estimated that 60% of South Africans had tried to give up smoking more than once, and that extra support was needed.

Yach said that while the new legislation was welcomed, it was still flawed because it included only warnings and failed to control trademarks and sports sponsorships which is a large factor in reaching the targetted audience.

Over the next three months there will be discussions over draft legislation controlling smoking in the workplace and public utilities.

Yach said SA's level of tobacco-related deaths was the worst on the continent, comparable to countries such as Thailand and Brazil.

The MRC and the HSRC yesterday also released the findings of a national survey which showed that the number of children and non-smokers exposed to tobacco smoke at home had reached critical levels as nearly 50% of respondents reported that at least one member of their household smoked.

The survey found that one in three South Africans smoked. The rate had risen by 3% over the past three years. The coloured population group had the highest smoking rate at 59%, followed by Asians (36%), whites (35%) and blacks (31%).

"This exposure to smoke at home is already a probable cause of the high rates of low birth weight, asthma, acute respiratory infections and pneumonia in children," said researcher Priscilla Reddy.

She said research in the last three years in areas such as Soweto, Eldorado Park, the Vaal Triangle, Mitchells Plain and Bishop Lavis had highlighted the relationship between mothers who smoke and low birth weight, and the adverse effect of parental smoking on acute respiratory infections and asthma in children.

The survey showed that this knowledge was not sufficient to stop people exposing their children to the harmful effects of tobacco. Instead, a comprehensive community based programme, backed by a price hike making cigarettes less affordable to children, was needed.

In another survey by the MRC and the Greater Johannesburg TMC it was found that nine out of 10 children aged between 10 and 12 were able to buy cigarettes from 200 retail outlets in the area.

● See Page 15

SABC proposes reduction of television advertising revenue

BD 31/5/95

Ingrid Salgado

THE SABC would reduce television advertising revenue from 73% of television income to 50%, while licence fee revenue would rise 5% and government contributions 15%, the group told the Independent Broadcasting Authority yesterday.

This would free commercial revenue for new broadcasters and would force the SABC to consider alternative income sources, it said.

Licence fee revenue would increase from 20% to 25% of total income, government would be asked to provide 15% and revenue from other sources would increase from 7% to 10%.

The broadcaster would put in place mechanisms to increase licence fee revenue, including improvements to its collection system and receipt of income from levies on electricity. It would ask government to provide additional revenue as compensation for the sale of the SABC-owned Sentech, which provides a video signal distribution function.

The funding proposals form part of the SABC's restructuring plans, which also provide for "channel surfing" — switching between the proposed three channels.

SABC spokesman Solly Mokoetle said news in all 11 official languages would be given airtime. Seven 30-minute news broadcasts would be aired across the channels every weekday.

Channel Three would be a predominantly English channel catering for specialised interests, while Channels One and Two would cater for the 10 other languages.

Tsonga and Venda would eventually be given news coverage in the Northern Transvaal.

Channel Three would keep the familiar TV1 format, but all news bulletins would be in English.

The transformation would be a transitional measure and would be launched in February next year. The SABC would continue to refine its proposals.

Mokoetle said channel surfing would allow viewers to switch between channels if they did not understand certain languages. This ensured each major language grouping had coverage on at least one channel during prime-time viewing.

SABC CE Zwelakhe Sisulu said the corporation hoped to spread advertising equitably across the three channels, but it would probably initially be predominant on the English channel.

Police seize Durban porn

Bonile Ngqiyaza

PORNOGRAPHIC material was seized during police raids on about five Durban shops on Monday following complaints from the public, police said.

Col Bala Naidoo said the docket would be forwarded to the senior prosecutor.

At least 70 adult video tapes were confiscated from the offices of Adult Video News Magazine.

Magazine publisher Cliff Naidoo said his lawyers were consideringlodging an application in the Durban Supreme Court today.

He said "most companies involved in the industry are using the proposed Film and Publications Bill as their guideline in the absence of fair legislation".

Home Affairs Minister Mangosuthu Buthelezi said last month the draft Act could not be seen as legalising pornography and the old Publications Act re- [illegible] in force.

Mild version of tobacco warnings

WM 2-8/6/95 (198)

Pat Sidley

WEDNESDAY — D-day for health warnings on tobacco advertising — was an ultra-light affair:

- Many radio stations were exempted from broadcasting cigarette ads with health warnings
- Warnings on cigarette packs did not appear after being given a stay of execution
- Some tobacco companies simply withdrew their ads from the marketplace.

Legislation due to have been enforced on June 1 to regulate the advertising of tobacco products — more particularly its unhealthy side-effects — has been severely watered down after intense lobbying by the tobacco industry.

Listeners to 11 radio stations will hear unchanged advertising messages from cigarette companies They will however get to hear five 30-second slots each day of anti-smoking messages compiled by the Department of Health.

This arrangement came about because some tobacco companies threatened radio stations that if they had to comply with the regulations and compile ads which contained both the health message as well as the sales pitch — they would withdraw all their advertising.

The regulations as they were originally drafted also provided for strong warnings to be placed on packets of cigarettes.

This move, however, met with cries of anguish from the tobacco companies — they could not possibly (in five months) get the new message onto their packages, or get their overseas counterparts to print packages which complied with the regulations. So they have been given until October to put the message on.

This applies to [illegible] companies. But a fifth importer of Belgian cigarettes, who was unaware the grace period, has managed to comply with the original regulations and the packets will show the warnings.

The print media have been hit hard by the discomfort of the tobacco companies — but to a lesser extent. Rembrant, one of the world's big four tobacco companies, is still advertising — with the new health warnings Camel have withdrawn their print advertisements for three months because of the new rules. The *Mail & Guardian* was informed of this in writing

One major company which represents Benson & Hedges and John Player Specials has withdrawn all its print advertising, hitting newspaper companies severely However, a representative of the agency which represents the brands, denied there was any connection between their move and the new regulations. The company was re-assessing its advertising at the moment, he said.

The media companies, along with the tobacco companies, were among the few groups who opposed the new regulations when they were being drafted last year.

For those, along with the highest profile non-smoker in the country, President Nelson Mandela, who wish to see a smoke-free environment, there is some hope on the horizon. Susan van Niekerk who is responsible for the tobacco issues in the Department of Health, is in the process of drafting legislation which ought to see smoking in the work place effectively banned. She said this week that the legislation the department envisaged would ban smoking in shared spaces.

Meanwhile, the Medical Research Council presented horrendous statistics this week showing that among certain South Africans, the effects of smoking are disastrous. For instance, in the Western Cape one in five deaths is caused by smoking-related diseases. The death rate from lung cancer has risen some 300 percent among coloured women over the past two decades. And new findings printed in the current *British Medical Journal* show that women who smoke for 30 years or more are significantly more likely to get breast cancer than their non-smoking counterparts.

- The Medical Association of South Africa has called for a dedicated health tax on tobacco products.

Bid to find alternative to tobacco crops 'is failing'

(198)

GENEVA — Developing countries' attempts to find substitutes for tobacco production have so far been disappointing, according to a study by the UN Conference on Trade and Development

The study is timed to coincide with World No-Tobacco Day today sponsored by the World Health Organisation (WHO), which this year has made the tobacco industry its prime target

BD 2/6/95

Citing World Bank estimates that tobacco costs the world more than $200bn a year, the WHO says avoiding efforts to control tobacco use out of concern for the job security of tobacco farmers makes no more sense than it does to avoid world peace out of concern for jobs in the arms industry

However, the conference's study shows that the five countries which are most heavily dependent on tobacco production — Malawi, Zimbabwe, Brazil, Bulgaria and China — have not yet found equally profitable or job-creating alternatives

Tobacco accounts for nearly 75% of Malawi's export earnings and the 700 000 workers in the tobacco industry, together with their families, represent just more than 50% of the country's population.

In Zimbabwe, tobacco contributes 40% of export earnings and 1% of GDP

In Brazil the tobacco industry employs 750 000 full-time and seasonal workers.

Available data on profitability of alternative crops in Brazil, Malawi and Zimbabwe show that tobacco is far more profitable, the conference says.

And while in Zimbabwe some large-scale farmers are experimenting with high-value crops such as fruit, vegetables and flowers, these are subsidised from tobacco earnings and are not self-sufficient.

In Zimbabwe, as in Malawi and Brazil, tobacco growers are predominantly small-scale family farmers.

With global tobacco demand increasing 2% a year, the five tobacco-dependent countries are unlikely to face problems in the near future

However, in the event of reduced tobacco exports, diversification would require a major development effort to replace the incomes and jobs derived from the tobacco industry

The European Union spends more on subsidising tobacco production than any other crop and, at $3,8m, the amount spent each day is greater than the total spent by the European Commission on tobacco control in a year, the WHO says. — Financial Times

Rembrandt reports pedestrian earnings

(198) BD 8/6/95

Marcia Klein

THE Rembrandt Group (Remgro) performed below expectations in the year to March, reporting a pedestrian 5% increase in earnings to 211,3c (200,9c) a share

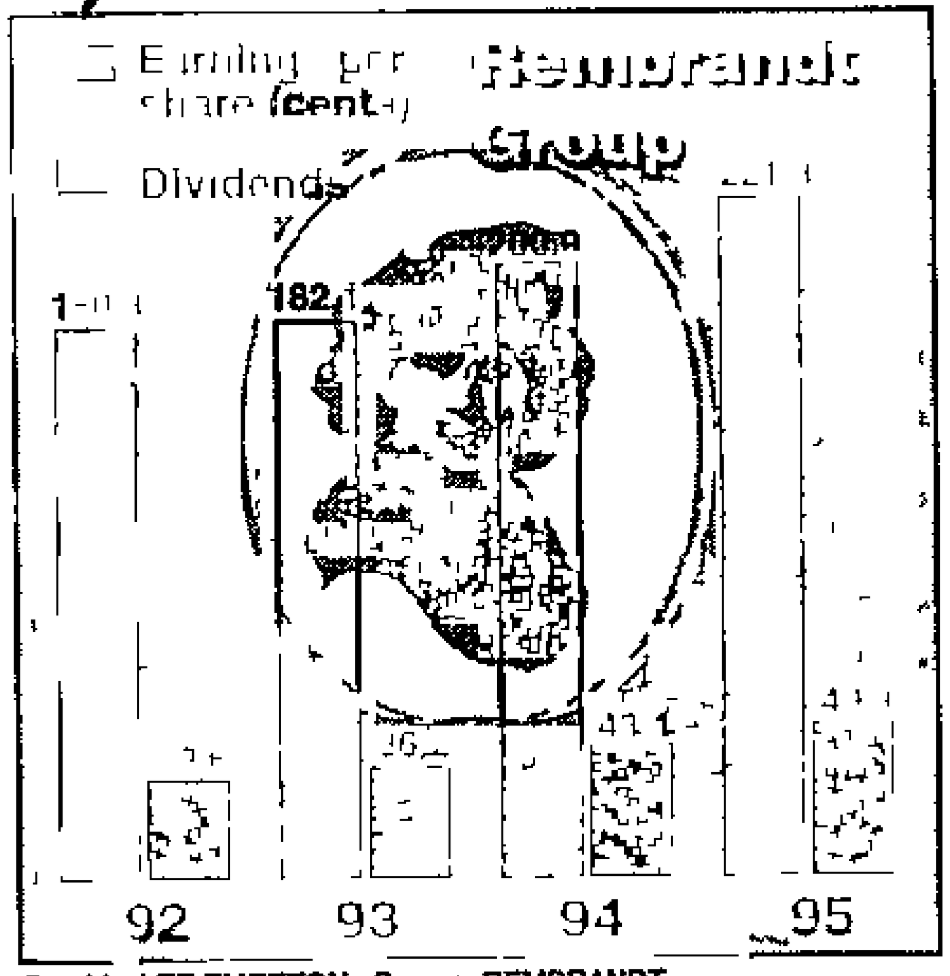
This was after abnormal items of R55m, which included a cost of R47m to comply with health warning legislation. Earnings excluding the abnormal item were 10% higher at 221,8c a share.

In February Remgro paid a final dividend of 30,36c to bring its full year dividend up by 15% to 49,96c (43,44c) a share But analysts said at the time they did not expect earnings to grow at a similar rate

Remgro said that the previous year's results included its portion of Gencor's earnings prior to its unbundling. Now it accounted only for dividends received from its interests in Engen, Malbak and Sappi, and as a result their contribution to net income fell 3c to 25,3c a share

It also said funding of its interest in cellular network operator Vodacom had started after the September interim stage Its share of Vodacom's losses for the year amounted to 6,3c (0,6c) a share

Earnings from Remgro's remaining interests excluding the effects of the abnormal item, the Gencor unbundling and Vodacom, had increased 17,1%.



Graphic: LEE EMERTON Source REMBRANDT

Group turnover grew 15% to R5,4bn (R4,7bn), and operating income was 9% higher at R1,2bn (R1,1bn)

After lower dividend income and the abnormal item, net income after tax declined to R871m (R924m). But associates pushed the bottom line up 5,1% to R1,1bn

Continued on Page 2

Rembrandt (198)

BD 8/6/95

Continued from Page 1

A R154m extraordinary item, taken below the line, included the group's R114m share of the write-down by Gold Fields of its investment in Northam Platinum.

Remgro also announced that subsequent to the year-end, it had exercised its pre-emptive right to acquire 25% of engineering group Dorbyl's holding company Metkor from Iscor for R100m, to lift its interest in Metkor to 75%.

Remgro has given no details of the performance of its diverse interests. About half of its earnings are derived from its tobacco interests, and market sources say the industry had a difficult year.

But the increase in excise duties was not as high as was feared, and consumption of major brands was not expected to decline sharply. Its other interests are largely mining, industrial and financial services.

Health laws burn Rembrandt's profit

CT (BR) 8/6/95 (198)

By Audrey D'Angelo
Cape Business Editor

Rembrandt Group profit in the year to March 31 was dented by the need to comply with health warning regulations for tobacco products, rationalisation and introductory losses during the establishment of the Vodacom network and by its share of the write down of Gold Fields of South Africa's investment in Northam Platinum

Before these losses, earnings from normal business operations rose by 10,4 percent to 221,3c (200,9c) a share

After the abnormal items, these earnings rose by 5,2 percent to 211,3c a share

Cash earnings excluding the share of retained income by associated companies slipped by 1,6 percent to 164,6c (167,3c) a share

The final dividend rose to 30,36c (26,40c) a share, making a total annual payment of 49,96c (43,44c)

Net income from normal business operations was R1 103 million (R1 049 million) Net operating income before tax was R1 172 million (R1 078 million)

The tax bill rose to R460 million (R409 million) leaving net operating income after tax of R712 million (R669 million)

Dividend income slipped to R214 million (R255 million)

Abnormal losses from business operations amounted to R55 million including a non-recurring cost of R47 million to comply with health warning legislation

The group's interests in Engen, Malbak and Sappi resulting from the unbundling of Gencor are not equity accounted and only dividends received from these companies are accounted for as income

The financial results of the unbundled Gencor are equity accounted

Items not included in normal business operations amounted to a loss of R154 million compared with a loss of R15 million the previous year

This included a loss of R114 million as the group's attributable share of the Northam Platinum write down

Rembrandt Controlling Investments reported earnings of 156,7c (148,8c) a share after abnormal items The final dividend is 22,48c (19,55c), making a total annual payment of 36,99c

Rembrandt Technical Investment Corporation reported earnings of 137,6c (130,6c) a share after abnormal items The final dividend is 19,73c (17,16c) a share, making a total annual payment of 32,46c (28,22c)

Technical and Industrial Investments reported earnings of 145,5c (138,3c) after abnormal items The final dividend is 20,92c (18,19c), making a total of 34,41c (29,92c)

Smoking warning costs Rembrandt a 'healthy' R47-m

(198) Star 8/6/95

■ BY AUDREY D'ANGELO

Rembrandt Group profits in the year to March 31 were dented partly by the need to comply with health warning regulations for tobacco products

Rationalisation and introductory losses during the establishment of the Vodacom network and its share of the write down of Gold Fields of SA's investment in Northam Platinum were also factors

Before these abnormal losses earnings from normal business operations rose by 10,4% to 221,3c (200,9c) a share. After the abnormal items these earnings rose by 5,2% to 211,3c a share.

Cash earnings, excluding the share of retained income by associated companies, slipped by 1,6% to 164,6c (167,3c) a share.

The final dividend rose to 30,36c (26,40c) a share, making a total of 49,96c (43,44c)

Abnormal losses from business operations amounted to R55-million including a non-recurring cost of R47-million to comply with health warning legislation.

The group's interests in Engen, Malbak and Sappi resulting from the unbundling of Gencor are not equity accounted and only dividends received from these companies are accounted for as income

Extraordinary items not included in normal business operations amounted to a loss of R154-million compared with a loss of R15-million the previous year.

This included a loss of R114-million as the group's attributable share of the Northam Platinum write down

Rembrandt Controlling Investments reported earnings of 156,7c (148,8c) a share after abnormal items The final dividend is 22,48c (19,55c), making a total annual payment of 36,99c.

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Technical and Industrial Investments reported earnings of 145,5c (138,3c) after abnormal items The final dividend is 20,92c (18,19c), making a total of 34,41c (29,92c)

REMBRANDT

Clouded by uncertainties

FM 16/6/95 (198)

Rembrandt Group (Remgro)'s results for financial 1995 highlight investors' dilemma about the group's prospects And this explains the relatively low rating the group is given by the market now

By and large, the group's results were expected One stockbroker says the outcome was in line with earnings estimates He says Remgro's tobacco interests advanced profits in excess of the inflation rate despite the large increase in excise duties and adds that the group had a reasonable year before abnormal items

Importantly, abnormal items involved pretax costs of R37m incurred in rationalising production units and reducing support services Also, there were pretax costs of R47m incurred in complying with health warning legislation After tax, these totalled R54m

Analysts say Remgro will do better in financial 1996 because the one-off effect of these extraordinaries won't recur The transitional levy won't have an impact, Hunt Leuchars & Hepburn (HL&H) should double its profits and Gencor's earnings (Remgro holds 14% of Gencor) should also show healthy appreciation HL&H has taken something of a battering in recent years, specifically from the difficulties relating to disease at Rainbow Chicken and the drought which has affected its sugar operations in the Eastern Transvaal

However, Gencor stands to make large gains from its recent acquisition of Billiton and from its local aluminium interests held through Alusaf Based on this, many analysts conclude the share is cheap and offers good value

Ed Hern, Rudolph research partner Syd Vianello takes a different approach He says though Remgro's profits from its tobacco interests exceeded the inflation rate, this is unlikely to persist, but he concedes a tax advantage will accrue in financial 1996 He thinks the tobacco business has fallen on hard times and nothing is likely to happen to rescue it

Remgro's volumes didn't increase much — if at all — but competitor Utico's declined Reinforcing his gloomy approach, Vianello says the effect of the 30% increase in duties over the past 12 months has not yet filtered through to smokers who have sheltered behind a strong economic recovery Thus the future for tobacco manufacturers, especially if the economy weakens, is at best uncertain

Vianello believes abnormal items will become a constant factor "They are likely to continue as the industry is forced to rationalise and comply with the law by including health warnings with products" Responding, Remgro MD Thuys Visser says abnormal items are one-off costs

Vianello is clearly not alone in his strongly expressed opinion Other analysts concur Despite arguments that Remgro's investment portfolio will perform substantially better over financial 1996, Vianello concludes that Remgro's share price "is going nowhere, nor will it for some time" It is an approach which clearly nettles Visser

What emerges from these views is that the industry faces an uncertain future Until a distinct direction becomes apparent, the safest course for investors is to sit on their hands

Gerald Hirshon

REALLY PEDESTRIAN

Year to March 31	1994	1995
[illegible]	[illegible]	1 172
[illegible] companies (Rm)	[illegible]	[illegible]
[illegible]		
[illegible]	9	1 103
[illegible]	[illegible]	[illegible]
[illegible]		

Remgro's Rupert *complying with health warnings*

PAG

Well, an interesting year

The people business has been pretty good for Professional Assignments Group (PAG) in the last year The country's economic resurgence has had firms jockeying for their share of a limited, skilled, people pool

Provisional results for the year to February 1995 show turnover up 89%, to R45,2m, and attributable income growth of 70% before extraordinary items, to R1m (R589 000)

MD Ray Rosse, whose resignation last November was rescinded two months later, has reason to be pleased Shareholders have less cause for celebration the dividend was passed again

PAG opened eight new branches and bought a property in Midrand which functions as its Midrand branch, and the pressure shows in the operating margins, down to 3,5% from 4,3% last year

Net interest dropped two-thirds to R55 000 (1994 R165 000), due, says financial manager Ian Kilov, to Rosse's stated dislike of overdrafts "We run a large debtors' book with a tiny overdraft," says Kilov

The balance sheet shows long-term liabilities up almost five-fold, as a consequence of financing the group's expansion in the last year Kilov says the group intends to continue expanding in this way by buying its own offices This will also help build up the tangible asset base

Current assets and liabilities have also shot up with the increase in turnover, with both debtors and creditors growing substantially Kilov points out that advertising is PAG's major expense, and the group has doubled its press guarantee Nonetheless, the statements show net current assets of R355 000

PAG's board stimulated considerable controversy last year, primarily over the purchase of a controlling interest in PAG chairman Prof Nic Wiehahn's former consulting company This was deemed by some senior managers to be a conflict of interest, since Wiehahn is also chairman of the government's Lotteries & Gambling Board (*Current Affairs* January 13)

There was also a court battle involving associate company Executive Suites and Southern Life — but Kilov says these issues are outside the interests of the trading company, which gets on with the business of personnel recruitment That may be so, but the costs still affect the group's bottom line

The share has been sitting at 60c for the last few months, down from its 12-month high of 125c, but even at that price it's hardly cheap on NAV of 19,9c

The market clearly views the shenanigans

BOUYANT PROFITS

Year to February 23	1994	1995
Turnover (Rm)	[illegible]	[illegible]
Operating income (Rm)	[illegible]	[illegible]
Attributable (Rm)	[illegible]	[illegible]
Earnings (c)	7	[illegible]

* After extraordinary item

~~152~~ 198

WAGE DEMANDS

Pie in the sky

FM 16/6/95

The problems trade unions can cause to members, employers and the economy were illustrated last month in a strike called at a Paarl, Western Cape, factory

The National Union of Food, Wine, Spirits and Allied Workers (Nufwsaw) took the step at Rembrandt group-owned R&R Tobacco Manufacturers (which launched Anton Rupert's career as a cigarette manufacturer 47 years ago)

Rembrandt communications director Hans Knoetze says managers had, over the years, allowed various trade unions to address the factory's 900 workers but they had not wanted to be represented by a union

Towards the end of last year, though, Nufwsaw started succeeding in recruiting members there By the time it began to negotiate with management in February for higher wages, it had signed up 360, all at the four lowest levels of the jobs hierarchy, starting with unskilled office cleaners

Wage negotiations got under way in January, with Nufwsaw demanding an across-the-board monthly increase of R1 500, which would have brought the lowest monthly cash wage to R3 660.

The company offered a 9,4% increase, which would have brought it to R2 364 Company contributions to pension and medical aid funds and the payment of shift allowances and annual bonuses added more than R1 000, to bring the total monthly package offered by the company to entry-level employees to R3 471

Negotiations dragged on but the company refused to budge Its wage rates are as much as double those paid by other factories in Paarl, says Knoetze Even those being offered to unskilled workers topped government salaries for teachers and nurses, to say nothing of policemen who face danger daily

On May 3, Nufwsaw brought its R&R members out on strike The rest of the plant's employees carried on working and production was not disrupted, says Knoetze

Soon afterwards, the company mounted a press campaign in Western Cape media, spelling out its offer and how it compared with salaries paid to teachers, nurses and so on It also used its legal right to a lock-out, to keep striking workers off the premises

Two weeks after the strike started, the union agreed to accept management's offer Its members had not been paid during the strike So the lowest paid, says Knoetze, ended up at least R1 580 out of pocket

Repeated attempts have been made, over nine days, to speak to Nufwsaw regional organiser Thami Mkize about the level at which his union had pitched its demands He returned no calls ■

BACKGROUND&ANALYSIS

THE SPIRA INTERVIEW

Hard times looming ahead for politically incorrect tobacco

(198) CT(BR) 19/6/95. (B7)

It's uphill all the way when you're trying to achieve real earnings growth in a declining market. That is the situation facing Uttco, plagued by declining cigarette consumption and struggling to make headway against the voracious Rembrandt mammoth, which controls in the region of 85 percent of South Africa's cigarette market.

To make matters worse, Uttco, a British American Tobacco subsidiary, is having to cope with increasing competition from low-cost imports.

What to do? Managing director Stuart Sutherland has eschewed the soft option of playing the cards dealt.

"We aren't satisfied with our market share. We've mapped out a strategy aimed at growing our share of the market and growing our earnings. And I'm confident we'll reach our goals."

Thus far there's no sign of a revival. Last year earnings declined but, says Sutherland, this was mainly as a result of additional marketing expenditure, particularly in the promotion of Players Gold Leaf. The fruits of that spending are starting to mature right now.

In assessing Uttco's likely future, three broad factors come into play:

- ☐ The development of the total market;
- ☐ What Uttco is able to do to increase its market share, and
- ☐ The company's success (or otherwise) in tapping export markets.

Sutherland concedes that there's not much that can be done about cheap imports, much of which comprise the pirate variety because they avoid import duties.

Cost containment is an obvious route toward improved earnings. Uttco has gone a long way in this direction and can proceed yet further, though huge and virtually insurmountable obstacles place a ceiling on progress.

"We've automated a great deal but are still, relative to some foreign companies, labour-intensive and, at the same time, not as efficient or productive.

"Nevertheless, from a peak with similar volumes, we've reduced our labour complement significantly over six years. It doesn't, however, all flow undiluted to the bottom line, since the labour mix has, of necessity, changed, with more skilled people needed for more sophisticated machines."

The thorniest problem facing South African tobacco companies is the rapidly growing incidence of tax, excise, VAT and increased personal tax rates, which renders the product progressively less affordable. Worse, says Sutherland, the rising taxes encourage smuggling.

He estimates that smuggling in South Africa accounts for 2 percent of consumption at present. "But it's growing and it could mushroom if taxes continue to rise. In the past year, cigarette prices have increased by 30 percent — almost three times the CPI increase. And it's substantially the result of a 55 percent increase in excise duties."

High leaf prices — around 50 percent more expensive than Zimbabwe's — also affect affordability, as well as the ability to compete in export markets. The one saving grace is that they used to be higher.

Over the past three years, cigarette demand has been declining by 3 percent to 4 percent a year in the wake of the anti-smoking lobby and the affordability problem arising from rocketing excise duties.

"In the United States last year, there was no decline in cigarette consumption. Despite the overwhelming anti-smoking sentiment in America, the decline in consumption appears to have bottomed out. The same could soon apply here. It's a freedom of choice issue at the end of the day."

What are Sutherland's feelings on the health risks of smoking? "The case is not proven. Not a single lawsuit has been won in the US. Hundreds have been brought. And bear in mind that the litigators get a slice of any settlement. That's tremendous motivation.

"The idea that environmental tobacco smoke, often erroneously described as passive smoking, causes diseases, is simply not supported by the numerous studies carried out internationally. The overwhelming majority of these cases report no statistically significant increase in risk to non-smokers.

"No compelling case has been made that extreme smoking restrictions and bans are necessary to protect the health of non-smokers.

"The emotive situation is reaching ridiculous proportions — so much so that in the US an anti-perfume lobby has developed. In California there's a strong move to ban people wearing perfume in restaurants. The world is becoming paranoid about smoking and I believe the pendulum will soon swing towards sanity.

"While many studies report that smoking is statistically associated with certain diseases, smoking has not been proven to actually cause these diseases.

"Conclusions drawn from studies often fail to recognise that people who smoke have been reported to have quite different lifestyles from non-smokers. It could well be something in these lifestyles rather than smoking which causes the disease.

"People labour under a misapprehension that if they ban smoking in a building, they have clean air. They haven't. In a great many studies, tobacco smoke in buildings has not been found to be high. It was other chemicals in the air that caused sick buildings. Most often it's the ventilation systems themselves that are at fault. Take tobacco out and you may still have a sick building."

EMOTIVE ISSUE *Uttco managing director Stuart Sutherland says the case against tobacco has not been proved*
PHOTO: JOHN WOODROOF

Sutherland might argue, perhaps convincingly, that the anti-smoking drive is unrealistically hysterical. It nevertheless exists and, along with other factors (soaring excise duties being the primary one), is negatively affecting Uttco's earnings. How, then, does the company hope to achieve real earnings growth for shareholders?

"If the market holds steady and we assume no further declines, we can deliver real returns by being competitive in South Africa, by becoming more productive and by boosting our export earnings."

Does Sutherland smoke? "I'm a social smoker. I also check the quality of our products on a daily basis."

(Editor's note: in case you were wondering, John Spira is also a smoker.)

where he was shot. His body has never been found.

Ban tobacco adverts on radio, IBA is told

(198) 22/6/95

Ingrid Salgado

TOBACCO advertising should be banned on radio and television and this should be extended to all forms of tobacco sponsorship in the electronic media, Medical Research Council group executive Derek Yach said yesterday.

Cigarette manufacturers were sidestepping new laws requiring advertisements to carry health warnings by increasing their support for sports, arts and cultural events, Yach told an Independent Broadcasting Authority hearing.

A 1995 national survey had shown that more than 60% of adults wanted a total ban on tobacco advertising on radio. But it indicated there was a poor knowledge of the impact of tobacco on health, he said.

Alcohol misuse was also promoted through "aggressive marketing". The council urged that such advertising disallow glamorising and there should be warnings or publicly funded messages emphasising the dangers of alcohol misuse.

The council recommended that increased excise tax on tobacco be used to develop a health promotion foundation, which could buy out tobacco sponsorship for sport and fund priority health promotion projects. Effective health broadcasting should also be included in entertainment programming.

The number of adult smokers had increased from 31% of the population in 1992 to 34% this year. Rapid increases were expected among blacks, especially in urban areas.

Also yesterday, a task team for the transformation of educational broadcasting told the IBA that government should allocate an annual lump sum to the public service broadcaster on the basis of agreed air time and related production costs.

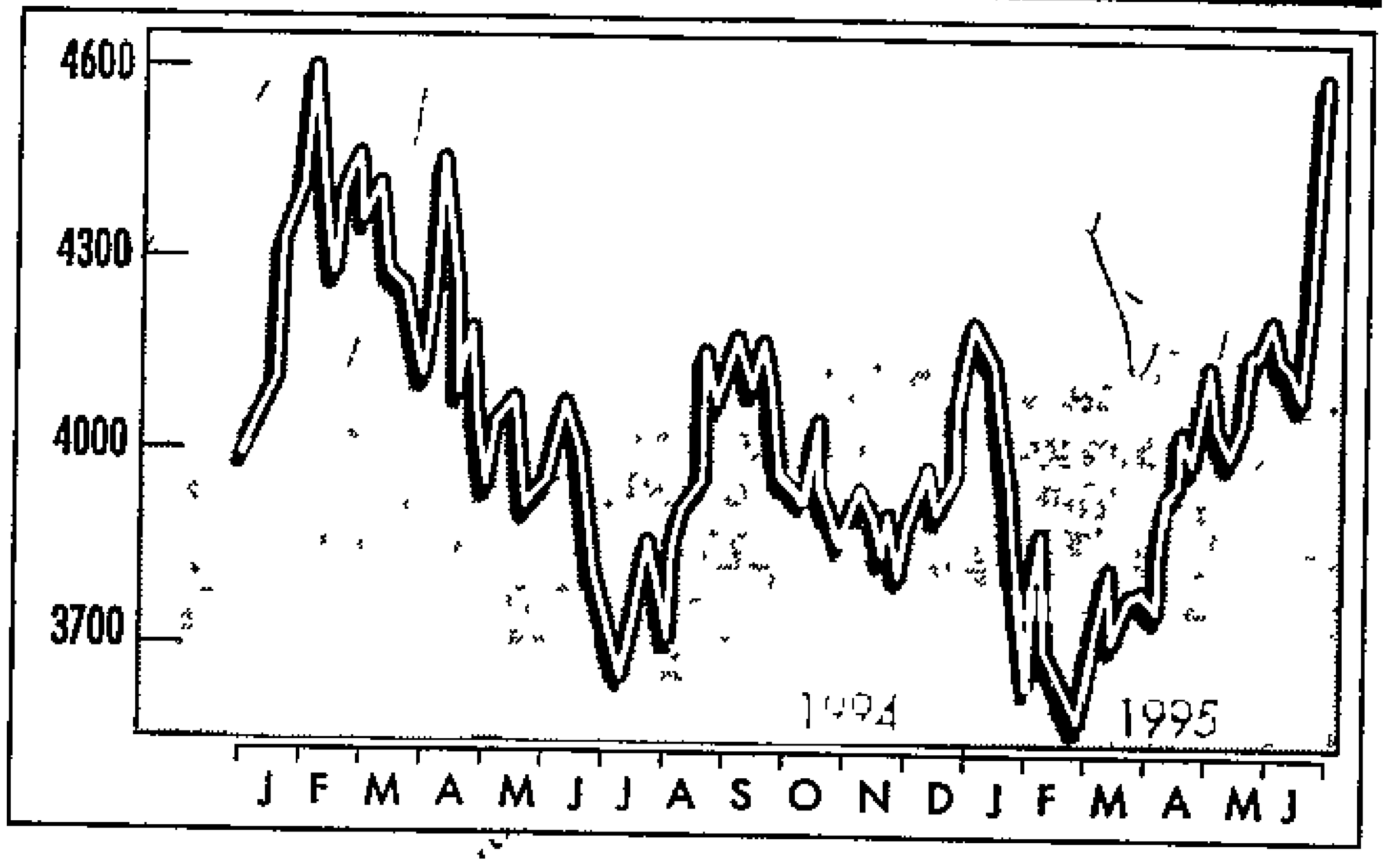
Richemont shares surge ahead of annual results

(198) CT(BR) 28/6/95

By Charlotte Mathews

- Investment Editor

Richemont share price



High expectations of year-end results from Richemont could be one reason for the 12 percent surge in the price of its units to R46 from R41 in the last couple of weeks The results are due before the end of this month.

Analysts suggest the units are undergoing a fundamental re-rating based on optimism that the group is entering a sustained growth period after a stagnant performance over the last two years

Richemont's main interests are tobacco, which is held through Rothmans International, luxury goods vested in Vendôme, and subscription television services.

In April Richemont announced it intended to make an offer to buy out the 39 percent of minorities in Rothmans International at 625p a share, which would cost £1,6 billion.

An analyst said yesterday that the generous level at which the offer was pitched — it was at a 28 percent premium to the share price at the time of the announcement — indicated management's confidence in the group's future.

Yesterday it was announced that Rupert Murdoch was also trying to buy into Fininvest, the same Italian pay TV group owned by the Berlusconi family from which Richemont bought its 25 percent stake in Telepiù in March last year.

Richemont's figures for the six months to September showed the group's attributable profit rose by 17 percent to £112,8 million, mainly as a result of a better performance from the tobacco side of the business, which contributes almost three-quarters of operating profit.

Analysts said yesterday they expected earnings for the full year to be substantially better than at interim stage This was partly because the international economic recovery was being translated into increased sales of luxury goods

Better earnings were also expected because the tobacco business was likely to benefit from the group's growing emphasis on the Pacific Rim markets However, they suggested there were other factors in the price movement as well

For over a year before the abolition of the financial rand at the end of March this year Richemont units remained in a tight band between R36 and R42 In late February, when speculation about finrand abolition and uncertainty about its effect on rand hedge shares was at its height, the units were at a two-year low.

Since the removal of the finrand, investors have been able to concentrate on the company's growth prospects, but since its earnings are in overseas currencies, it also benefits from the weakness in the rand.

Healthy growth in Richemont's profits

ST(BT)2/7/95 (198)

By JULIE WALKER

RICHEMONT, the Swiss-based holding company of tobacco and luxury goods, improved its operating profit by 13% to £688-million from a 5% rise in sales revenue to £3,8-billion in the financial year to March 1995

Earnings a unit rose by 28% to £45,61 and the dividend was increased 13% to £7.

A unit equates to 100 shares quoted on the JSE and the current rate of exchange is around 578c to the pound

Richemont says lower tax and less payable to minoroties resulted in the much improved bottom line.

Rothmans International's unaudited figures indicate a 2,7% rise in tobacco sales to £2,55-billion — two thirds of Richemont's total sales — and made up 71% of operating profit.

Richemont intends to buy out the minority in Rothmans

Luxury goods company Vendôme's sales grew by 2,2% in Swiss francs.

Due to currency fluctuations, sales grew 10% to £1,3-billion

Sales of jewellery now account for 16% of Vendôme's business, and combined with sales of gold and watches, contributes 38,5% of total sales revenue.

Fewer pens were sold as the number of outlets was reduced.

But leather goods found favour in the Far East and sales improved by 9% in Swiss Francs.

Richemont made £11,2-million from its interest in NAR Group, a direct retailer in America, but took a £38,1-million loss from its holdings in Network Holdings BV, jointly controlled by MultiChoice.

Richemont shares were on Friday trading at R44,50, just off the June high of R46

Richemont profits from luxury goods

(198)

CT(BR)3/7/95

By Charlotte Mathews
Investment Editor

Higher returns from Richemont's tobacco and luxury goods interests helped to lift attributable profit, excluding exceptional items and goodwill write-offs, by 28,2 percent to £261,9 million in the year to March compared with last year

Comparisons between actual figures for this year and last year are difficult because of exceptional items but the group has also provided figures on a like-for-like basis

According to these like-for-like figures, net sales revenue climbed by 5,1 percent to £3,8 billion, on which operating profit was 13 percent higher at £688,0 million

Net investment income decreased by £1 million to £52,8 million, partly because there was non-recurring profit last year, while the tax rate dropped to 31,3 percent from 33,6 percent previously owing to a lower effective rate reported by the group's tobacco interests

Earnings lifted to £45,61 a unit from £35,58, excluding exceptional items and goodwill amortisation Including those items, earnings more than doubled to £48,69 a unit from £20,03

A dividend of £7,00 a unit, against last year's £6,15 a unit, was declared

The latest figures included a £23,2 million share of the profit made on the disposal of properties in Singapore and Germany by Rothmans International

Last year Richemont had special costs of £50,4 million on the restructuring of its tobacco and luxury goods interests as well as a £36,7 million share of European rationalisation costs incurred by Rothmans International

The group said average exchange rates did not make a significant difference to the results since gains made on the weakness of sterling against the mark and related currencies were offset by losses on the weakness of the dollar and related currencies

Delay

Tobacco's contribution to operating profit grew by 14,8 percent to £487,0 million, but no more information on this business was available because figures from Rothmans were being delayed by Richemont's offer to buy out Rothmans minorities The offer closes on July 10

Operating profit from the luxury goods interests grew by 14,8 percent to £222,4 million The greatest sales growth was shown in jewellery, up 11,1 percent to represent 16,8 percent of luxury goods sales

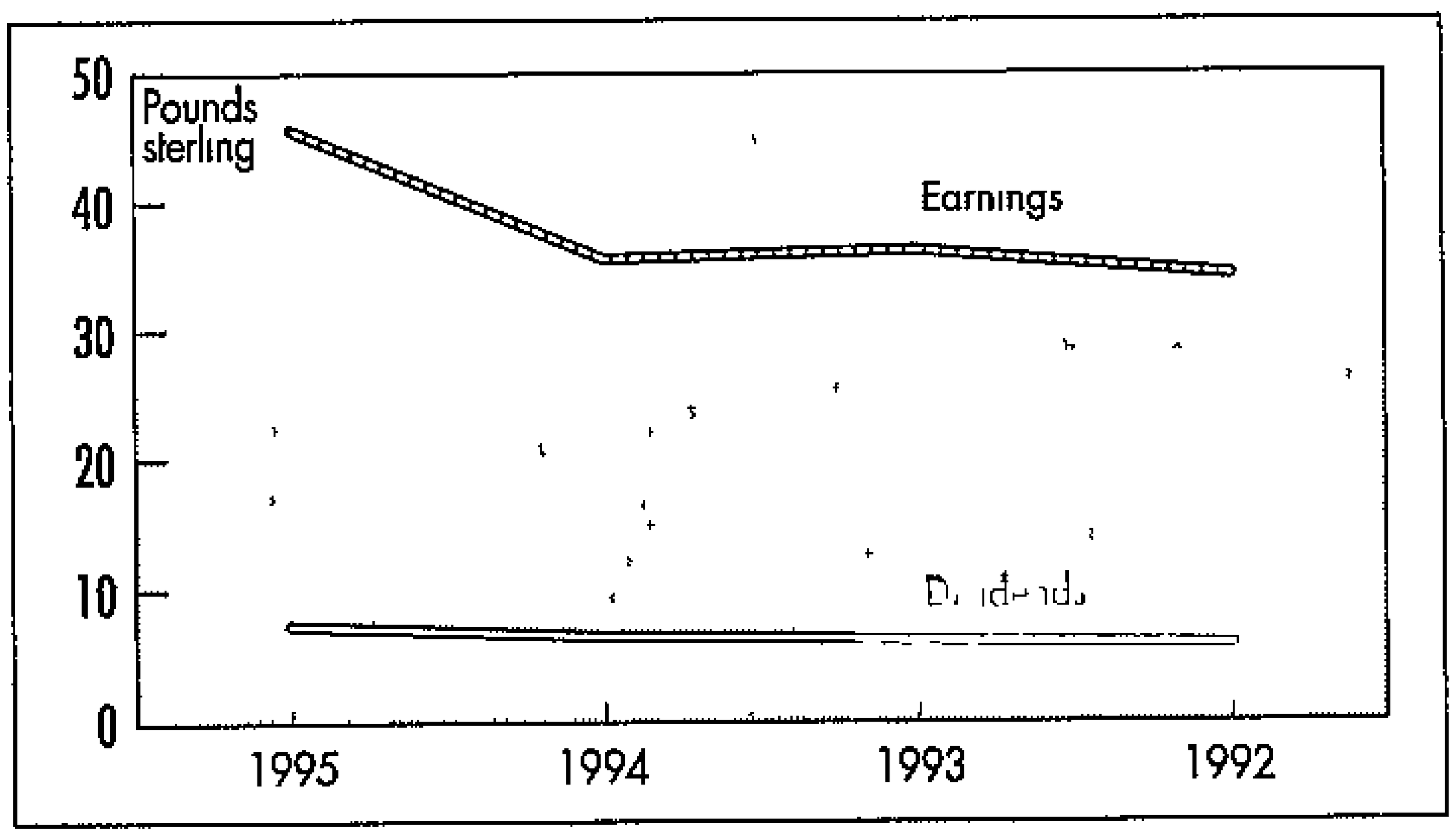
Leather goods were 9,2 percent better, particularly on demand in the important Far East markets

The NAR Group, which had a controlling interest in United States speciality direct retailer, Hanover Direct, reported strong sales growth mainly because of a full year's revenue from a number of acquisitions and joint ventures, but operating results were hit by higher selling expenses

Richemont's media interests, which were combined with those of MultiChoice from the end of March, reported an operating loss of £38,1 million from £12,4 million previously owing to the costs of expanding the operations of Network Holdings' operating subsidiaries, FilmNet and MultiChoice, into new markets

The operating results from the pay television service improved against the previous year, largely because of continued subscriber growth in all territories

Richemont - Four year earnings & dividends history



REMBRANDT GROUP

(198) FM 28/7/95

More active management needed

Activities: *Investment company core activity is cigarette manufacture and marketing Other interests include banking and financial services, forestry and timber processing, printing and packaging, engineering, adhesives, life assurance, medical services, mining, petrochemical products, portfolio investments, pulp and paper, cellular communications, food, wine and spirits and various other trademark products*
Control: *Rupert and Hertzog families*
Chairman: *J Rupert MD M H Visser*
Capital structure: *522m ords Market capitalisation R14,5bn*
Share market: *Price 2 775c Yields 1,8% on dividend, 8,0% on earnings, p e ratio, 12,5, cover, 4,4 12-month high, 3 025c, low, 2 350c Trading volume last quarter, 10,4m shares*

Year to March 31	'92	'93	'94	'95
ST debt (Rm)	33	71	79	85
LT debt (Rm)	196	293	604	648
Debt equity ratio	0,3	(0,2)	0,4	(0,1)
Turnover (Rm)	n/a	4 349	4 701	5 365
Pre-int profit (Rm)	1 164	1 321	1 413	1 584
Net income	941	956	1 049	1 103
Earnings (c)	180,0	182,1	200,9	221,8
Dividends (c)	*32,6	36,2	†43,4	50,0
Tangible NAV (c)	1 055	1 343	1 681	2 101

* Excludes special dividend of 30c † Excludes special dividend of 14,5c

Financial 1995 was one of mixed fortunes for Rembrandt Group (Remgro) The tobacco division showed a commendable 17% increase in operating profit That is a strong showing But that was before taking into account abnormal items like the once-off provision of R47m to comply with regulations promulgated in the recent Tobacco Products Control Act

The portfolio of investments did not fare nearly as well The question is what is Remgro's management doing to improve the situation and to optimise shareholder returns from what appears to be a passively managed portfolio?

In the 1995 year the investment in Huntcor was increased from 65,9% to 83,5%, at a cost of R248m Other than the tobacco interests, Huntcor is Remgro's only fully consolidated subsidiary

Its earnings slumped by two-thirds, partly because of the bad showing by Rainbow Chickens Drought across its sugar cane and timber growing areas took its toll Its timber interests suffered because of the cost squeeze on the gold mines and a poor performance in furniture operations Only food and spice producer Robertsons produced satisfactory volume and earnings growth

In Remgro's mining portfolio, earnings from the unbundled Gencor companies, at 25,3c a share, were 3c lower The contribution from mining declined 11,9% — though this was partly because certain former Gencor interests are no longer equity accounted

Now excluded from the Gencor holding are the house's former interests in Engen, Sappi and Malbak, the contribution from this source was consequently R42m less Even so, in the half-year to December 31, Gencor increased its attributable income by 54% thanks to firming commodity prices and newly acquired Billiton Group Gold Fields of SA lifted its EPS by 34% for the same period Earnings from diamond miner Trans Hex were unchanged

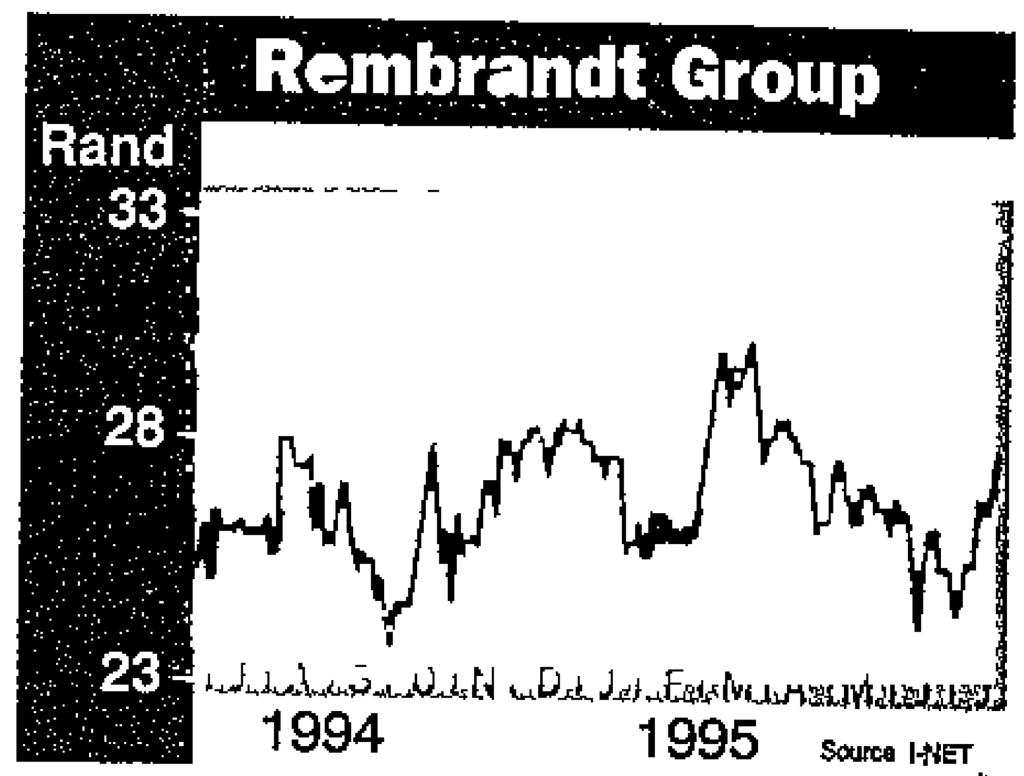
In Remgro's industrial portfolio, its engineering and associated interests did well They contributed R27m against R2m a year ago, following recoveries at Dorbyl and Metkor The petrochemical interests fared less well because of lower refining margins at Engen, whose earnings fell 49% in the half year to February 28 Total SA produced real earnings growth

Tobacco interests form part of the "trademark group," with the wine and spirit investments, 30%-held Distillers Corp and 30%-held Stellenbosch Farmers' Winery

Remgro chairman Johann Rupert
the cash keeps piling up

In the financial sector, both Absa and Sage Group achieved strong earnings growth and its "other" interests' contribution rose 10% to R110m

Remgro was founded in 1948 as a cigarette maker Strong cash flow from its tobacco business was used to compile its investment portfolio These investments performed strongly through the Eighties, but for the past four years group earnings growth has lagged even though the tobacco division continued to perform well



If Remgro's sole activity was manufacturing cigarettes, on what p e would its share be rated? It is a question many analysts are asking The answer would help to validate the current share price

At R27, market capitalisation is R14,1bn Remgro's nontobacco investments, including shares in unquoted companies, are capitalised at around R10,6bn That leaves the tobacco business with a market cap of roughly R3,6bn

If all other earnings are stripped out of group attributable income, earnings from cigarette marketing total about R550m That suggests the tobacco business is valued at a low p e of 6,5 Given the perceived risks of cigarette marketing, its "anti" lobby, the expected continuing increases in excise duties at around 30% a year and restrictions on advertising, is this p e reasonable or too low?

Syd Vianello of stockbroker Ed Hern Rudolph points out that tobacco companies in the US are valued at p es of about 13, despite impending court cases against some and the exceptionally strong anti-smoking lobby In Australia and Canada, he says, tobacco companies are listed at p es of 7-8

Vianello estimates Remgro's cigarette margin is about 37% after eliminating all duties It has been even higher in the past and, he reckons, earnings from this source will continue to grow at about 20% a year

If so, Remgro's tobacco interest is undervalued and the share is underpriced What is keeping it this way? Two issues appear First there is the "problem" of the earnings capability of the investments in the rest of the portfolio Second is the management of the portfolio

Remgro MD Thys Visser confirms that investment decisions are made largely to comply with the board's view of what constitutes a strategic holding in the context of the SA economy, and this is unlikely to change Nor, he adds, is it likely these investments will be actively traded in the

198 FM 28/7/95

market in the foreseeable future

There is no doubting the long-term viability of most of the investments. But performance of the strategic holdings is largely linked to economic conditions. Unless the portfolio is actively managed it is unlikely to perform much better than the economy and will probably underperform the JSE's All Share index. That is one possible reason the share price has been in the doldrums for several years.

Unless the Remgro board can improve the investment performance — which has been inferior to the returns available on the JSE — they should consider repaying to shareholders at least part of the R1,1bn cash which the group currently holds. That would allow shareholders to manage the funds themselves, rather than leave them in a passively managed portfolio.

Curiously, though the investment performance up to now has been unexciting, and there are no obvious plans for deployment of the group's high liquidity, dividend cover remains a high 4,4 times. That results in an unattractive yield of 1,8%.

Many of Remgro's investments that were in trouble are now recovering strongly. Group earnings growth should improve this year. Even if the market rerates the tobacco earnings, it remains difficult to see whether the share's overall rating will regain the lustre it had in the Eighties — unless management adopts a more dynamic approach to its portfolio of investments.

Gerald Hirshon

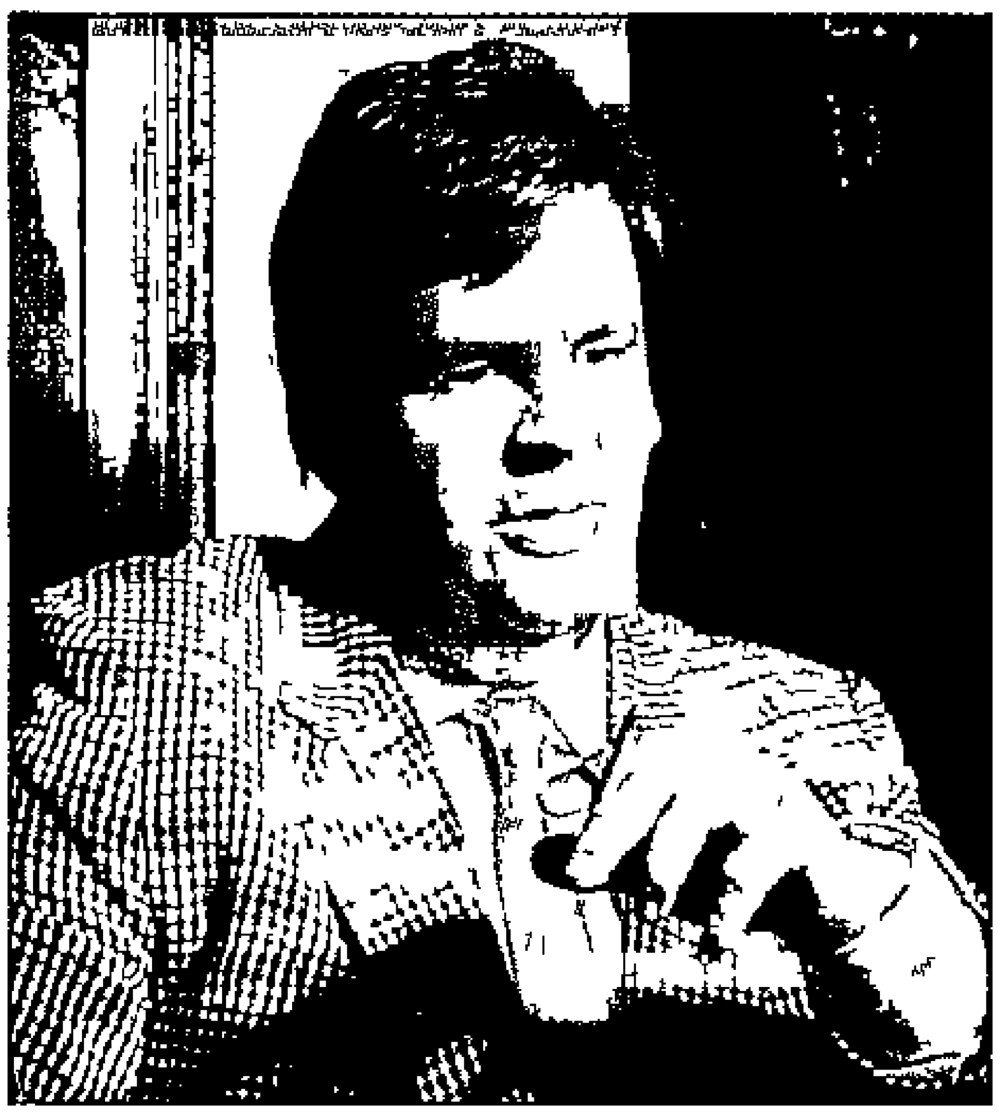
RICHEMONT (198) 7/7/95

Interest rekindling

The outlines of a bold and imaginative plan to fund a strategic new source of future earnings from mature businesses can be gleaned from Richemont's 1995 results

The trick now will be to sustain the growth shown in the latest figures — probably for at least three years — as repayment of debt for full ownership of subsidiary Rothmans is completed and the growing joint interest in the media is given time to generate returns

The potential shift in earnings mix casts a new light on a share which has been in a tight trading band around R40 for two years or more A recent jump to R46, though followed by a retreat to R44,25, could indicate



Rupert *the trick is to sustain the growth now evident*

renewed appreciation

For that to happen, though, steady growth from Richemont's two main pillars of tobacco and luxury goods will have to be kept on track

Details of the tobacco operations are sketchy, because unaudited results from Rothmans International still have to be approved by the board This is no doubt related to Richemont's bid to acquire, for £1,6bn, the outstanding 39% of Rothmans it does not yet own

Offering a premium of about 28% to minority shareholders, there seems little doubt the deal will go through (*Fox* April 28)

Still, results from tobacco — which contributes more than two-thirds of turnover and operating profit (after stripping out associates) — were surprisingly good Margins widened, allowing a slow 2,7% increase in turnover, to produce operating profit growth of 14,8% (see table)

At operating level, luxury brands housed under Vendôme increased by the same percentage, but their contribution to turnover rose 10,2% This was fuelled by strong sales growth of jewellery, which in Swiss francs (Vendôme's reporting currency) increased 11,1%, to comprise 16,8% of total sales With gold and jewellery watches, total jewellery sales account for 38,5% of turnover

Can this be sustained? CE Johann Rupert won't make forecasts But with extensive restructuring and rationalisation costs out of the way, these results offer a clearer view of the potential of the core businesses

The outlook for luxury goods is bullish Some analysts feel Vendôme has not yet received the full benefits of strengthening economies in many European countries

Tobacco is a mature business Despite what seem considerable opportunities for market growth in places such as China and eastern Europe, the long-term view must be that the large markets in Europe and the US will continue to decline

For Richemont, however, the equation changes with the imminent acquisition of all of Rothmans Total annual cash flow, including the outstanding 39%, has been estimated to be around £500m

Tobacco provides a quality, more predictable cash flow And there is a strong argument for Richemont gearing up to pay for the greater cash flow it will receive from Rothmans in future

The acquisition will require about £1,1bn debt on the part of Richemont It's a large number which may have caused concerns for some investors, but analysts say it is really not an issue Borrowing will be sourced abroad, in a country like Switzerland, the interest rate would be around 3% And Richemont could derive tax-efficient benefits from gearing up

It is commonly thought that part of Rothmans' cash flow will be diverted into the media interests held under Nethold, controlled jointly with MultiChoice Rupert says that a final decision has not been made

He expects development losses, of which Richemont picked up £38,1m in latest results, to continue another three years

It also seems certain Richemont will continue to expand its new media arm, possibly through acquisitions and entry into new markets The media component is not big enough to affect Richemont materially

But if Richemont has chosen the media as a future third pillar of earnings, Rupert will want to expand aggressively All he says is that possible developments are being worked on with Nethold management

The Rothmans deal may be affecting the share price, even if only indirectly on the JSE Rothmans has been one of the top performing shares on the London Stock Exchange for 10 years Reports from the City say some minorities are switching to Richemont This may account for the large volumes and firming Richemont price on the JSE

But it's also likely that Richemont is being viewed in a new light in SA Its static performance was influenced by anti-tobacco sentiment and by uncertainties preceding the abolition of the financial rand Recent bullish reports from stockbroking firms, including buy signals, have rekindled interest

Backed by latest solid results and attractive prospects, the share could be considered undervalued *Shaun Harris*

FIRMING UP

Year to March 31	1994	1995
Turnover (£m)	3 665	3 852
Operating profit (£m)	609	688
Attributable (£m)†	204	262
Earnings per unit (£)	35,6	45,6
Dividends per unit (£)	6,15	7,0

† Excluding exceptional items and goodwill amortisation

CORE GROWS

Operating profit (£m) Principal contributions

	1994	1995
Subsidiaries		
Tobacco	424	487
Luxury goods	194	222
Other	(9,1)	(6,9)
Associates		
Media interests	(25,7)	(38,1)
NAR Group	11,0	11,2
Tobacco	14,5	12,4
Total	608,7	688,0

Rupert criticises health warning law

198

BD 11/7/95

Edward West

CAPE TOWN — Government's plans to enforce more visible health warnings on tobacco products intruded on the Rembrandt group's property rights, chairman Johann Rupert said in the group's annual report.

The warnings on packages, to be introduced from November, will cover 15% at the top of the front of the package, and a descriptive warning will take up 25% of the back.

In addition, 20% of the back must explain the contents of the package

Rupert said these measures represented a "new and disturbing" level of regulation affecting business and constituted an intrusion of property rights by degrading trade marks and packaging designs.

The once-off cost to comply with these regulations amounted to R47m before tax, which was provided for as an abnormal item in the financial statements

The effect of the warnings on future consumption could not be calculated

The group's tobacco and wine and spirits interests fell under Rembrandt's trade mark group division, which contributed 51,1% of total earnings.

Rupert also criticised government's intention to increase excise duty on tobacco products, which he said would reduce employment in the sector

"The loss of state revenue due to the considerable increase in sales of smuggled products is also being ignored," Rupert said

The group began rationalising the division's production and overall support services over the past year.

Provision for the rationalisation of costs of R37m was treated as an abnormal item before taxation in the financial statements, the figures show

After the year-end, the group exercised a pre-emptive right to acquire a further 25,8% of Metkor from Iscor for R100m, bringing its holding in Metkor to 75,7%

Investments during the year included increasing its stake in Huntcor from 65,9% to 83% for R248m, acquiring Engen shares for R11m to maintain its stake after a capitalisation issue, investing another R58m in Vodacom, bringing the total to R99m, exercising its rights in Sage Group at a cost of R23m, 50%-owned Medi-Clinics' R61m acquisition of Medicor and the re-acquisition of a 25% indirect stake in a Mozambican cigarette manufacturer for R1m

E Tvl govt a threat to Rembrandt Group plan

■ BY ANDY DUFFY

(198) STAR 12/7/95

The Rembrandt Group's tie-up with South Africa's second largest tobacco supplier could be jeopardised under plans being forged by the Eastern Transvaal government.

The region's economic affairs department is brokering talks between Chinese-owned tobacco giant Kai-Wah group and Lowveld tobacco co-operative LTK, under which the two would produce cigarettes from tobacco grown in the area.

The Eastern Transvaal is the second largest tobacco-growing area in the country, producing 5,6-million kg last year which was sold mainly to Rembrandt through the Tobacco Exchange.

But Kai-Wah has tabled investment plans worth around R5-billion in the region, with a massive new cigarette factory top of the list. The Eastern Transvaal government has suggested the Kai-Wah joint venture with LTK to build and operate the factory. Kai-Wah officials have already been to LTK's Nelspruit headquarters.

Formal talks between the two are expected to start later this month.

Eastern Transvaal's economic affairs department said the plant would look at supplying both the domestic and export market. Official Anton Scheepers says: "We're getting the two together. Our main aim is to create investment in the province."

Rembrandt – which controls around 85% of the South Africa's tobacco market – has been badly hit.

It suffered increased excise duties last year and was forced to spend R37-million rationalising its local tobacco operations and R47-million to meet new health requirements.

(198) BD 20/7/95

Rembrandt's mainstay still tobacco

Hilary Joffe

IS THE SA tobacco market in decline? The health lobby hopes it is The Rembrandt group, not surprisingly, believes it is not. And while the group's earnings growth has been less than spectacular in recent years, this has been the fault of its non-tobacco interests rather than the tobacco business, which has continued to increase profit

Cigarette sales volumes grew rapidly in the 1980s but started to fall three to four years ago Cigarette consumption was static in the year to end-March, according to Rembrandt's annual report released last week, following a 3% decline in the previous year

At least one JSE analyst has argued the tobacco industry is now in long-term decline, in line with First World trends

But most analysts expect moderate growth in cigarette sales in due course — perhaps at the 1% a year characteristic of emerging markets in Asia. And this is despite higher excise taxes and new legislation requiring prominent health warnings

Rembrandt MD Thys Visser notes tobacco does not escape the economic cycle the decline in volumes in 1992 to last year was not unexpected given the recession

Substantial tax increases prevented consumption increasing once economic growth resumed, he argues Excise duties were raised 25% in June last year and a further 25% in March this year. But Visser believes there may have been growth in cigarette sales volumes last year which was not seen in the official market because it was taken up by cheaper smuggled goods

"We do not have a handle on the unofficial market but we have warned that if taxes are pushed too high it makes smuggling attractive and does not necessarily cut consumption," Visser says. He sees the cigarette market following predominantly Third World trends

The group, which has about 85% of the SA cigarette market, increased the tobacco division's operating profit 17% in the year to end-March (20% last year) Visser says margins were up as cost increases were contained to substantially below inflation while the manufacturing price increased in line with inflation Market share improved marginally

But the tobacco business's contribution to Rembrandt's bottom line was up only 6% because of rationalisation and compliance with the new health warning requirements

Rembrandt is closing its tobacco factory in Industria and transferring the operations to its Heidelberg factory (there is a third factory in Paarl) This is aimed at increasing cost competitiveness rather than at reducing capacity, Visser says A sum of R37m was provided to cover the full cost of the programme

The group is spending R47m to change advertising material and packaging adverts have had to carry health warnings since May 1 while cigarette packs must carry the warnings from November 1.

Why so expensive a change?

Visser says there are eight health warnings which have to rotate over a year in two different colour combinations — hence 16 different versions of every cigarette ad and pack

In the annual report Rembrandt chairman Johann Rupert made much of the new regulations as "a blatant intrusion upon the property rights of your company" and Visser sees them as an infringement on trademarks, making it difficult to distinguish between brands Cigarette packs must carry warnings on 15% of the front and 25% of the back

"The situation is among the worst in the world, comparing only with Canada and Australia," says Visser (the original government proposal was for warnings on covering 25% of the front and 50% of the back) But, he says, the effect on consumption is difficult to calculate

Analysts say the evidence suggests the warnings in themselves have little effect More important are education levels, peer pressure and harsher restrictions, for example on smoking in workplaces

Even if the future growth in the market is limited, Rembrandt's tobacco business can undoubtedly continue to generate huge cashflows and turn in profits without needing much in the way of investment — the group's tobacco and liquor interests contributed more than 50% of net income in financial 1995 but accounted for only 12% of capital employed

It is also well placed to contend with the possible threat of new foreign entrants to the market An analyst notes Rembrandt has the financial resources and excess production capacity to fight possible competitors, and has tied up distribution of most of the international cigarette brands it does not manufacture

Foreign investors are believed to have been a key factor driving the Rembrandt share price up from its low of R23,50 in September to R31 recently The share is now at R27 Where locals have tended to be concerned about the threats to the tobacco business, foreign fund managers compare Rembrandt favourably to tobacco groups internationally

But the problem with Rembrandt — and the reason it is not as highly regarded as it used to be — is not primarily in tobacco Tobacco is the classic "mature" industry of the business strategy textbooks The cash it generates is supposed to go into investment in capital-hungry industries with high growth potential Rembrandt has built up an extensive investment portfolio — the listed portfolio is worth R4bn to R5bn

But several components have performed extremely badly in recent years, dragging down the group's earnings growth More fundamentally, there is no obvious rationale to the portfolio, which analysts regularly criticise for its lack of focus Little of it fits in with management's core competence of managing consumer-based trademark businesses Neither does it position the group firmly in another sphere of interest

There has been a recognition by Rembrandt management of the problem and the group has sold its interests in Fralex, Boland Bank and Momentum/Lifegro

But further restructuring is not imminent, it seems "Over time the portfolio could move into greater focus," says Visser "But the worst thing we could do is exchange assets for further cash if we believed those assets would unlock value for shareholders over time"

He adopts a similar view on the group's R1,1bn cash pile, interest on which makes up a fair chunk of investment income (Visser prefers to set the cash off against debt in the group, mainly in HLH, lowering the figure to R370m) Cash of R600m to R700m flows in annually from tobacco and dividends Says Visser "We must be careful not to diversify into areas which our shareholders could go into themselves"

In financial 1995 the mining interests (Gencor, Goldfields, TransHex) contributed 17,5% of net income

A further 13% came from industrial interests (among them Huntcor/HLH, Metkor, Total, Engen, Malbak and Sappi) and 8% from financial services (Absa and Sage) The group's other interests include Mediclinic, Perskor and Vodacom

Visser does not see the relative contributions changing materially this year In the longer term he notes the contribution from tobacco and liquor has risen from 40% in 1991 to 51% and will probably continue to creep up.

Analysts' forecasts of 1996 earnings growth range from 18% to 25%, with similar growth expected in 1997 The latest earnings (up only 5%) were pulled down by the abnormal items in tobacco and by the effects of the Gencor unbundling.

Better performances are expected particularly from the cyclical stocks in the Rembrandt portfolio

Chinese deal could undermine Rembrandt's LTK link

(198) CT (BR) 12/9/95

By Andy Duffy
Staff Writer

The Rembrandt Group's tie-up with South Africa's second-largest tobacco supplier could be jeopardised under plans being forged by the Eastern Transvaal government.

The region's economic affairs department is brokering talks between the Chinese-owned tobacco giant Kai-Wah group and Lowveld tobacco co-operative LTK, under which the two would produce cigarettes from tobacco grown in the area.

The Eastern Transvaal is the second-largest tobacco growing area in the country, producing 5,6 million kg last year, which was sold mainly to Rembrandt through the tobacco exchange.

But Kai-Wah has tabled investment plans worth around R5 billion in the region, with a new cigarette factory on top of the list.

The Eastern Transvaal government has suggested the Kai-Wah joint venture with LTK should build and operate the factory. Kai-Wah officials have already been to LTK's Nelspruit headquarters.

Formal talks between the two are expected to start later this month.

Eastern Transvaal's economic affairs department said the plant would look at supplying both the domestic and export markets.

Official Anton Scheepers says: "We're getting the two together. Our main aim is to create investment in the province."

Rembrandt — which controls around 85 percent of the South African tobacco market — has been badly hit.

It suffered increased excise duties last year and was forced to spend R37 million rationalising its South African tobacco operations and R47 million to meet new health requirements.

Analysts said the deal would lead to higher income for LTK. But they said the strength of Rembrandt's cigarette brands should shield the group from any setback in its home market.

Senior LTK sources said any new plant would equal rather than replace Rembrandt as a main buyer.

The drop-off in domestic demand had left tobacco farmers with excess stock.

Rembrandt said it was unable to comment until it received further details, while rival producer Utico said the Kai-Wah proposals remained, at this stage, merely "speculative".

Richemont poised to buy Rothmans

CT(BR) 12/7/95 (198)

STAFF WRITERS

Richemont's offer to buy all the outstanding shares in Rothmans International was 98,64 percent accepted, Richemont said in a statement yesterday

The acceptances included the 60,65 percent of shares held by Rothmans Tobacco Holdings SA, a wholly-owned subsidiary of Richemont.

Richemont announced in April that it would offer to buy the 39 percent of minorities in Rothmans International at 625p a share, which would cost about £1,6 billion.

Analysts speculated that the purpose of the offer was to give Richemont access to Rothmans' substantial cash flow, estimated to be about £500 million a year, which would fund the costs of the buy-out within three years.

The deal still depends on a court hearing today to sanction the scheme.

Rembrandt hurt by smuggling

(198) Star 2/8/95

South Africa had gone from a society with no freedom and plenty of discipline, which resulted in tyranny, to one where there was freedom but no discipline, with consequent anarchy, Johann Rupert, the chairman of the Rembrandt Group, said yesterday.

"If the anarchy continues, tyranny will return," Rupert told the annual general meeting of the company in Stellenbosch.

South Africa had to take a quantum leap into the future, transforming its economy from the export of raw materials to the development of technology-based industry, said Rupert.

There were a number of major problem areas, including the crime rate, poor education levels, excessive corporate taxes and trade unionism which were undermining investment, Rupert said.

Referring to difficulties that lawlessness was causing for Rembrandt, Rupert said there was large-scale smuggling of cigarettes into South Africa.

He could not say how much the smuggling was costing the company, but he said the question should also be asked how much should be lost in tax revenues.

He criticised the increasing duties on cigarettes, which had gone up by 25 percent a year for the past two years and which was accelerating smuggling. He could not say at what level of duty smuggling would become endemic. Rupert also criticised the government for giving contradictory signals on the tobacco industry.

While it was stepping up campaigns to discourage smoking, the IDC had signalled its intention to give a foreign investor in the tobacco industry soft loans, said Rupert.

Rembrandt hurt by cigarette smuggling

CT (BR) 2/8/95 (198)

By Bruce Cameron

Assistant Editor

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Rembrandt, with its employees, contributed about R2 billion in tax a year to South Africa

"The problem in South Africa is that the person who pays customs duties and taxes is penalised for staying within the law," he said

Referring to industrial relations, Rupert said "the biggest threat to the unemployed is the trade union movement"

He criticised the union movement for calling for minimum wages and the banning of lockouts and replacement labour

He said the paradox for labour was that the United States, which had the lowest savings and hired and fired more workers than most countries, eclipsed any other country in net job creation

The United States had been able to achieve world leadership in tomorrow's technology because of its attitude to hiring and firing, Rupert said from

Cigarette excise duty takes its toll on Utico

Marcia Klein (198) BD 11/8/95

FURTHER declines in cigarette volumes saw tobacco products group Utico Holdings' earnings slump 48,4% to 111c (215c) a share in the six months to June.

Directors said excise duty on cigarettes was increased "a pernicious 55%" in the nine months after the June 1994 budget, resulting in a 30% rise in recommended selling prices

"This increase has not only restrained volumes but also encouraged the smuggling of cigarettes into the country on which the payment of excise duty has been deliberately evaded."

Utico's results were not comparable with 1994 due to the inclusion for five months of the Willards snack division, which was sold to National Brands for R421,3m at the end of May last year

Results of United Tobacco, whose major products include Benson & Hedges, JPS, Winston, pipe tobacco, cigars and snuff products, have been shown separately from Willards to facilitate comparison

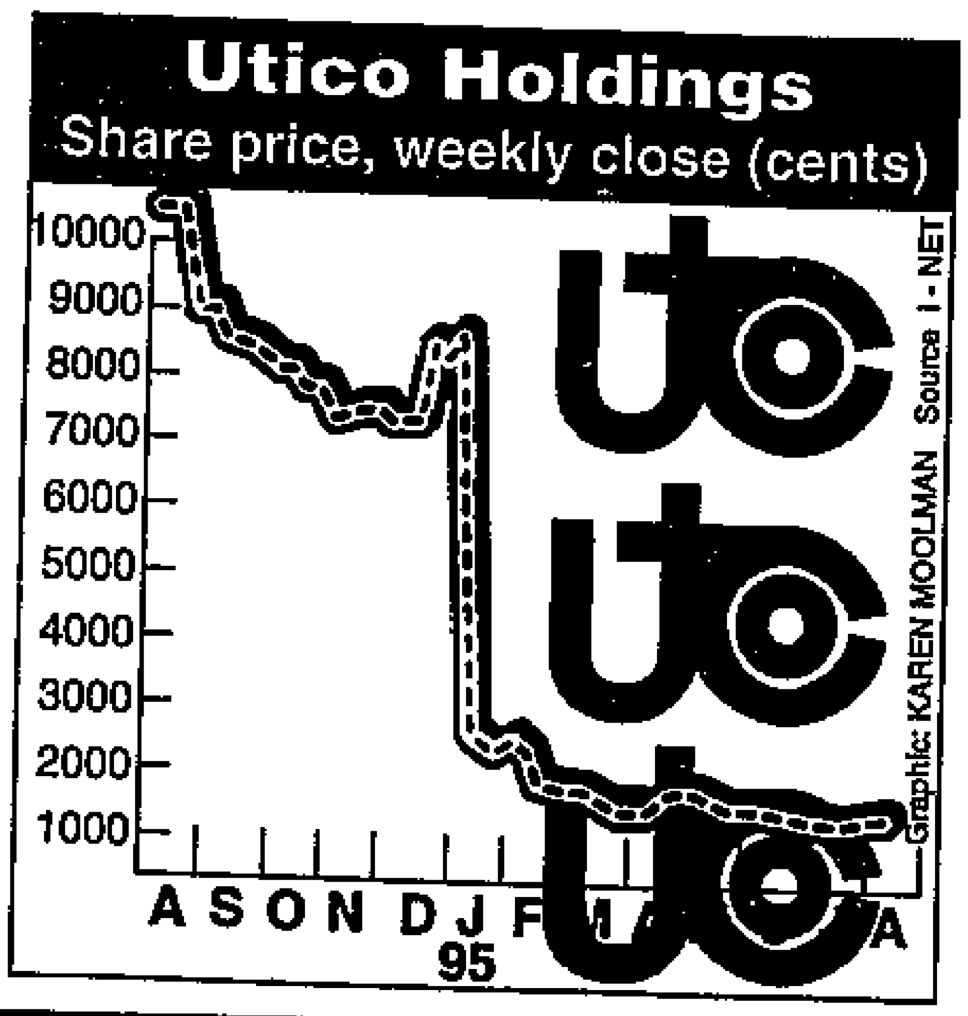
It reported a marginal rise in turnover to R186,3m (R182,6m). Directors said this reflected the effect of higher excise and artificially high trade buying in June last year ahead of the excise increase announced in the budget later that month

Although United Tobacco's operating income slumped 40,9% to R10,4m (R17,7m), directors said productivity improvements and cost savings enabled the group to show an operating profit in the first half compared with an operating loss in the second half of last year.

Utico has made a R5,1m provision for the implementation of the Tobacco Products Control Act restrictions which require health warnings to be displayed on advertising material and packs.

Income before interest and tax was 75,3% down, but sharply higher net interest received — from investing proceeds of the Willards sale — enabled it to show a 51% drop in pre-tax income to R12,1m (R24,6m)

Attributable income was 48,5% lower at R6,7m (R13m), and an interim dividend of 55c (129c) a share was declared.



'Tobacco industry drains the coughers'

CT 11/8/95 (198)

JOHANNESBURG: For every rand tobacco contributes to the South African economy, it costs three rand in treatment of tobacco-related diseases and lost productivity, Council Against Smoking director Dr Yusuf Saloojee said yesterday

He said these figures had been released by the South African Medical Research Council.

Dr Saloojee was reacting to an announcement by the Tobacco Board that the tobacco industry was probably one of the largest contributors to the national treasury in 1994, having paid R1,93 billion in VAT and excise duty alone

"Estimates from 1988 show that industry lost 2,5 million working days due to smoking-related illness," Dr Saloojee said

He added that a far greater proportion of tobacco was being imported, which had a serious drain on South Africa's financial reserves

According to tobacco industry figures, in 1988 over R100 million worth of tobacco was imported, said Dr Saloojee.

Earlier yesterday, Tobacco Board chairman Mr Wrensch Louw said: "When it is considered that South Africa had only 760 tobacco farmers in 1994, producing on 15 962ha, these farmers make an enormous contribution to the economy" — Sapa

Richemont confident of rising sales of cigarettes

(198.) Star 18/8/95

■ BY CHARLOTTE MATHEWS

World consumption of cigarettes was growing and in view of the advantages to the 50 million people worldwide engaged in the tobacco industry, there was no reason why this growth should not continue, Johann Rupert, Richemont's managing director, said in the group's latest annual report.

After a deal with Rothmans shareholders this year, Richemont now owns 100% of Rothmans International, whose cigarette brands include Peter Stuyvesant, Craven "A" and Dunhill

It also has substantial electronic media interests and a 70% share of luxury goods manufacturer Vendome

Since 1980, world demand for cigarettes had grown by an estimated 1-trillion or 25%, Rupert said

In the year to March, the group's worldwide tobacco sales were marginally higher than in the previous year, with gains made mostly in eastern Europe, Indonesia, Japan and Britain Sales declined in Africa, France and Germany.

Richemont's media interests altered this year, with the purchase of a 25% stake in Italian pay television operator Telepiu and the formation of a new media holding company, Nethold, in partnership with MultiChoice

The restructured group will bring the latest technology to all its markets. Nethold will introduce digital transmission by the end of this year

Rupert said that Richemont accepted that the additional expenditure involved in expanding analogue services to new territories and changing to a digital era would defer a breakthrough to profitability

Richemont confident of rising cigarette demand

(198) CT(BR) 18/8/95

BY CHARLOTTE MATHEWS

INVESTMENT EDITOR

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"Rothmans International believes it is well-placed to remain a major competitor in the tobacco industry and to continue to achieve real profit growth"

Richemont's media interests altered this year, with the purchase of a 25 percent stake in Italian pay television operator Telepiu and the formation of a new media holding company, Nethold, in partnership with MultiChoice

The restructured group will have the financial and managerial resources to exploit new opportunities and will bring the latest technology to all its markets Nethold will introduce digital transmission by the end of this year

Richemont was committed to supporting its investment in the media industry but accepted that the additional expenditure in expanding analogue services to new territories and changing to a digital era would defer a breakthrough to profitability, Rupert said

Despite the group's pleasing results in the year to March, difficulties had to be overcome The global economic recovery faltered in some countries and economic imbalances were reflected in exchange rate movements which posed a problem for all global businesses

Rupert said the next year would be challenging, but the group would benefit from the Rothmans International transaction, the strength of its luxury goods interests, the steady progress at catalogue marketing operation NAR Group, and the steps taken to strengthen the media business

Tobacco industry's 'no addiction' claim denied

(198) Star 22/8/95

■ MEDICAL CORRESPONDENT

The National Council Against Smoking has questioned the credibility of the Tobacco Institute of Southern Africa, which claimed last week that tobacco was not addictive.

The salvo between the anti-tobacco lobby and the tobacco industry came after an institute statement saying that to describe smokers as addicted to cigarettes, was a "gross misrepresentation" because millions had quit smoking.

The Council's executive director Dr Yussaf Saloojee hit back saying the claim "flies in the face of scientific facts, as established by the tobacco industry itself".

Internal US tobacco industry documents showed their own research established more than 30 years ago that nicotine was addictive, and that cigarettes were, in essence, nicotine delivery devices, Saloojee said.

He said scientists working for British-American Tobacco — the parent company for South Africa's United Tobacco — wrote in a 1963 confidential report that "smokers denied nicotine are left with an unbalanced endocrine system.

"This means they crave renewed drug intake and which explains the addiction of the individual to nicotine," this report said.

BAT regarded these studies as reliable, Saloojee said in a statement.

In 1963, its legal council wrote in a memorandum, "We are, then, in the business of selling nicotine, an addictive drug effective in the release of stress mechanisms."

Saloojee said "The public relations posture of tobacco industry differs from its internal working views, tobacco executives acknowledged nicotine's addictiveness over 30 years ago, but still deny this in public."

RICHEMONT

Strong growth in core businesses

(198) FM 25/8/95

Activities: *Tobacco, luxury goods, direct retailing and electronic media*
Control: *Compagnie Financiere Richemont AG 100% Ultimate control lies with the Rupert and Hertzog families*
Chairman: *N Senn MD J Rupert*
Capital structure: *5,2m "A" bearer shares and 5,2m "B" registered shares ords Market capitalisation R22,97bn*
Share market: *Price R44 Yields 0,9% on dividend, 5,9% on earnings, p e ratio, 16,8, cover, 7,0 12-month high, R46, low, R35,50 Trading volume last quarter, 12,4m shares*

Year to March 31	'92	'93	'94	'95
ST debt (£m)	468	523	391	422
LT debt (£m)	778	789	136	103
Turnover (£m)	3 108	3 443	3 665	3 852
Pre-int profit (£m)	584	633	†476	808
Earnings (£/unit)	34,36	36,26	20,03	48,69
Dividends (£/unit)	5,63	5,89	6,15	7,0

† Includes restructuring and rationalisation costs

Results for financial 1995 cast a clearer light on Richemont's transforming base of earnings The accounts are not clouded, as they were last year, by extensive restructuring and rationalisation costs, totalling about £184m at pre-tax level

What emerges is the underlying strength of the core businesses, in particular Rothmans International's performance in Europe, where, despite fears of maturing markets and the antitobacco lobby, turnover and operating profit grew well

Luxury goods held up well, while a number of new developments — not yet apparent in the accounts — show Richemont investing substantially in the development of new markets and areas of business

Europe is one of the five major geographic regions into which the tobacco interests are organised It contributes 43,5% of turnover from tobacco and accounts for a third of operating profit through Rothmans, the second largest tobacco group in western Europe

Against divisional turnover growth of 2,7% to £2,55bn, Rothmans in Europe increased turnover by 7% to £1,11bn Operating profit increased 63% to £162m against a divisional increase of 14,8%

Richemont's Rupert *a challenging year ahead*

The big increase, MD Johann Rupert notes, was strongly influenced by price increases and lower production costs

The markets are mature — consumption was lower in most but regional volumes remained unchanged as increases in the UK and Greece were offset by declines in France, Germany and Belgium, which is the only country not to show higher profits

The successful year in Europe highlights the importance of Richemont's deal to acquire the remaining 39% of Rothmans International The proposals have been approved and should show in this year's accounts Chairman Nikolaus Senn notes the transaction gives Richemont full control of the tobacco business "and its inherent cash generative capacity" For about £1,6bn, Richemont gains cash flow which UK analysts estimate at about £500m a year

Serious potential problems remain in Europe, including continuing possible increases in excise tax and what Rupert calls a lack of tax harmonisation in the European Union Apart from depressing consumption, he believes it could increase cross-border trade in contraband cigarettes

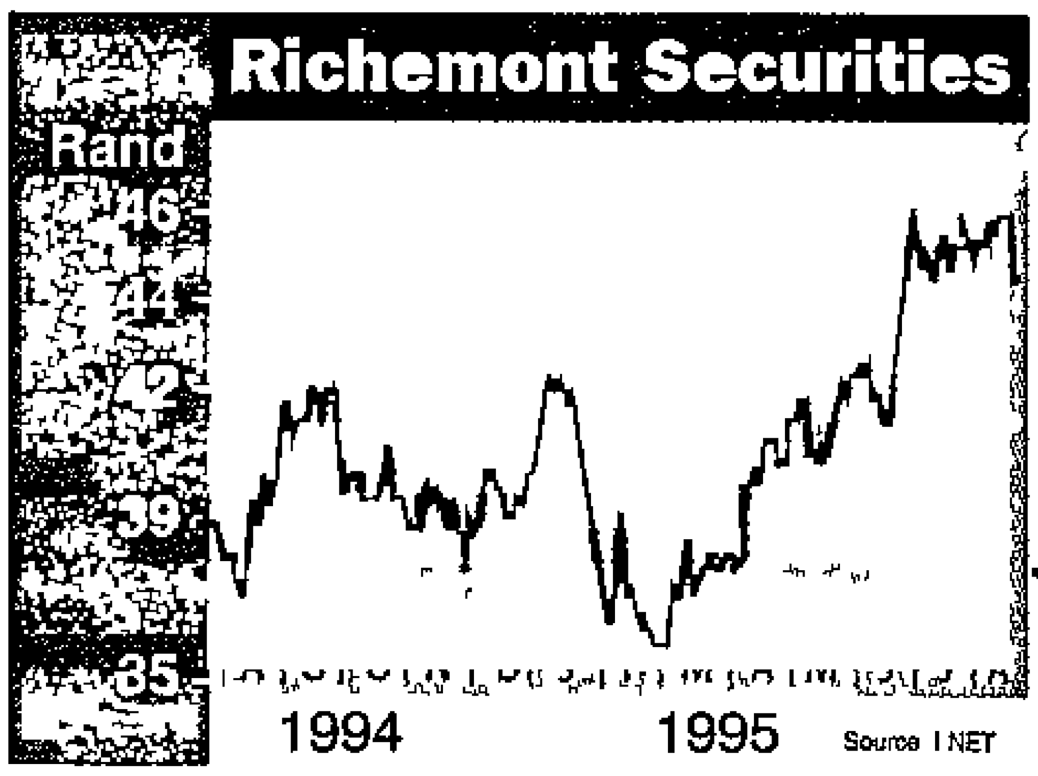
"The European Commission will undertake a fundamental review on excise policy at which time the industry will address the issues relating to tax differentials, tax structures and trade flows, including the dangers posed by contraband," he says

Apart from Europe, developing markets are showing strong growth The Asia region lifted turnover 14% to £466m and increased operating profit by 19% to £120m Much of the steady performance from the tobacco division reflects benefits of the restructuring programme, which began in 1993, starting to flow through

Luxury goods, housed under Vendôme and which roughly account for a third of group turnover and operating profit, provided stable profits Turnover growth of 10,2% was strong, the 14,8% increase in operating profit was in line with that of tobacco

Two factors affected results here Rupert says global economic recovery "has been far from uniform, faltering in some countries" The division was affected by exchange rate movements, especially the strengthening of the Swiss franc (Vendômes's reporting currency) against the weakening US dollar over the reporting period The strongest gain was in sales of jewellery, up 11,1% to SwFr437,7m

Apart from the Rothmans deal, the two other major events were the formation of



Nethold BV to house the merged media interests of Richemont and MultiChoice International Holdings Subsequent to year-end, US$320m was invested in acquiring 5,7% of Mediaset, the Italian TV empire owned by former Prime Minister Silvio Berlusconi

Richemont is clearly committed to growing these electronic media interests, though probably only towards the end of the century when they start contributing to earnings

The cash flow statement shows investments of £188m, most (£170,3m) in media investments, while about £25m was spent by Vendôme in acquiring James Purdey & Sons, the London-based gun maker

Losses from media interests grew from £25 7m in the previous period to £38,1m

Rupert makes no forecasts, saying only that Richemont has a "challenging" year ahead

He has the comfort of massive cash generation from the tobacco interests, which will be enhanced this year with the full takeover of Rothmans International, and top tobacco and luxury goods brands

That gives Richemont space to develop its media interests and the continuing costs they will absorb They could be an important source of future earnings, though they add a speculative element to the share

The core businesses are probably undervalued at Richemont's JSE price of R44 Some analysts say there is value up to at least R50 with the inclusion of Rothmans as a wholly owned subsidiary *Shaun Harris*

Richemont hopes for 'satisfactory' figures

BD 6/9/95 (198)

ZUG — Compagnie Financiere Richemont AG is optimistic about achieving satisfactory results in the current financial year, says chairman Nikolaus Senn

"Although we acknowledge the need for continued investment in the development of Nethold BV's media interests, your board is hopeful that satisfactory results will again be achieved during the current year," he said at al shareholders' meeting

Satisfactory results were reported by the group's tobacco and luxury goods business during the first quarter and other activities were performing in line with budget, he said

Richemont's fiscal year ends on March 31 For the year just ended, it reported attributable profit of £279,6m on sales of £3,85bn

Senn said the group's M-Net pay-television operations were already profitable in SA

However, investment in new territories in Europe, the Middle East and Africa, along with the launch of new services taking advantage of digital transmission technology, will delay Nethold's move to profitability.

Richemont executives told analysts on Monday the company anticipated losses in its media business for three years

Nethold was formed early this year to consolidate Richemont's subscription television operations with those of MultiChoice/M-Net

Senn pointed out that Nethold, in conjunction with the Kirch group of Germany and Saudi Arabian interests, would acquire a minority stake in Mediaset, the Italian commercial television and advertising subsidiary of Fininvest.

The partners are acquiring a 25% stake in Mediaset.

Nethold's share of the Mediaset investment will total about 522-billion lira, or about Sf390m — Reuter.

Call to ban tobacco ads

(198) ARG 16/9/95

JOHANNESBURG — The World Health Organisation (WHO) has been asked to help draw up legislation to ban tobacco advertising in South Africa and other African countries.

The call was made at a WHO-sponsored meeting of African health ministries in Gabon this week. Most countries at the meeting supported bans on adverts and sponsorship, said one of the delegates, Derek Yach

Dr Yach, a former Medical Research Council executive now attached to the Tobacco Control Commission for Africa in Geneva, said governments also were urged to do more work on school-based tobacco control programmes.

South Africa's health ministry is understood to be considering a total ban on tobacco advertising. — Sapa.

COMPANIES

Tobacco interests may merge

Nicole Mordant

REMBRANDT Group (Remgro) and Compagnie Financiere Richemont AG (Richemont) had begun preliminary discussions to determine the feasibility of merging their respective tobacco interests, they said yesterday.

It was envisaged that, if implemented, the merger would combine their tobacco interests in an international group with an integrated portfolio of trade marks and businesses, they said in a cautionary notice to shareholders. Remgro and Richemont would each hold shares in the combined business and therefore the proposals would not affect the capital structure of either company

Remgro's shares surged almost 4% or 115c to match their annual high of R30,25 in what dealers described as "aggressive buying" after the release of an initial announcement which contained no details of the proposed deal. Some 129 770 shares changed hands in 39 deals

Richemont's depository receipts added 50c or 1,1% to close at R45,75, just off a R46 annual high, after shares worth R5,4m traded in 41 deals.

Rembrandt Controlling Investments (Rem Beheer), with a 51% stake in Remgro, saw one of the day's best price movements, climbing over 5% to R20 and Technical Investment Corporation (Tegkor), which holds a 20,7% stake in Remgro, surpassed its previous one-year peak to end 3,75% higher at R18. (198)

JSE equity traders speculated throughout the day that Remgro and Richemont would group their tobacco businesses in a single streamlined company which would be listed separately. There was also talk of a possible unbundling of the Rembrandt pyramid and the "removal" from the group structure of Rem Beheer.

Neither Remgro nor Richemont would comment further on the proposed merger BD 21/9/95

Tobacco merger talks

(198) CT(BR) 21/9/95

BY CHARLOTTE MATHEWS

INVESTMENT EDITOR

Richemont and Rembrandt were in talks over a possible merger of their respective tobacco businesses, they said yesterday If implemented, the deal would combine the two companies' tobacco interests in an international group

Both Richemont and Remgro would hold shares in the business, so the proposals would not affect either company's capital structure

Sources said Rembrandt's tobacco interests, entirely South African and valued at about R6 billion, are much smaller than the international tobacco holdings of Richemont's subsidiary, Rothmans International, which would rule out a full merger.

It was more likely that Rothmans would take a 50 percent interest in Rembrandt's tobacco operations and perhaps inject its African tobacco interests, which are fairly small, into the deal together with some cash and Richemont shares

According to stockbroker David Meades, such a deal could result in the JSE-listing of a new tobacco company, which would be of considerable advantage to Rembrandt shareholders

(198)

RICHEMONT/REMBRANDT

Different smoke rings

FM 29/9/95

Market reaction to the cautionary announcement that Richemont and Rembrandt (Remgro) might merge tobacco interests in an international group has been spectacular, particularly given tobacco shares' staid performance in recent years.

Since last week's announcement, Remgro has set a new 12-month high of R30,50 Richemont, at R45,50, is just a touch off its high of R46. Even Remgro pyramids Rembrandt Controlling Investments and Technical Investment Corp climbed to new highs on the news

Looking at Remgro, the enthusiasm is hard to understand at face value Without its tobacco interests, Remgro would lose close to half its source of attributable earnings, worth R550m in financial 1995 Also, the remaining interests — mainly mining, food and timber (HLH and Rainbow) — are hardly exciting at present

Liquor, represented by 30% stakes in Distillers Corp and Stellenbosch Farmers' Winery, are not that material to earnings, their contribution estimated at about 5% One aspect that has dampened the share's rating is that Remgro's portfolio of investments, largely passive, generally is not considered attractive

However, the possible removal of the tobacco interests is clearly being seen as bullish for Remgro One analyst believes it could signal the start of an unbundling process, including the removal of the cumbersome pyramid structure

One of the few reasons why many stockbroking firms continue to recommend Remgro as a long-term buy is the widely held belief that the tobacco interests are severely underrated Also, the anti-conglomerate rhetoric from government (*Leading articles* September 22) might make the move look attractive

There has been no explanation from Stellenbosch Benefits to both Remgro and Richemont depend largely on how the deal is structured The cautionary was clear that Richemont and Remgro would each hold shares in the combined business and that the capital structures of neither would be affected

Is the proposed home for the combined trademarks and businesses Rothmans International, which will soon be wholly owned by Richemont? That seems a logical way to implement the merger, though the question then is whether Remgro would be offered shares in Rothmans for its tobacco interests, or in Richemont

The latter could be more favourable, allowing Richemont to get the full benefit of Rothmans' cash flow, most of which will probably be deployed in developing its international media interests over the next few years, while Remgro participates in some of the better prospects most analysts believe Richemont will soon enjoy *Shaun Harris*

Tobacco sponsors are a delicate issue

(198) Star 29/9/95

■ BY STAFF REPORTER

Tobacco wars over the 1996 Rothmans Cape to Rio yacht race have ended, but the spotlight remains on the issue of allowing tobacco companies to sponsor local sporting events.

Last week, the Cape to Rio organising committee finally bowed to weeks of public and media pressure and decided to allow the race favourite, the Swedish yacht, Nicorette, to compete in the event.

Nicorette is the brand name for a chewing gum used to help smokers kick the habit.

The yacht Nicorette was first granted permission to compete in next year's Cape to Rio race in February 1995; but, in August, race organisers rescinded the decision, citing as their reason potential embarrassment for sponsor Rothmans

In a statement released this week, Rothmans said that although it felt the committee acted correctly in protecting the interests of the main sponsor, the entry should be allowed in the best interests of sport, free competition and the event itself.

Nicorette skipper Ludde Ingvall has dubbed the decision a victory for sport· " No event organiser should be put under this sort of pressure from a sponsor, and be forced to make decisions which compromise the standards and values of an event," he said in a statement.

According to a statement from the National Council Against Smoking, the controversy sparked an international debate over the credibility of the Cape to Rio, and the power of tobacco sponsors to interfere with the integrity of sport in general.

The council has previously accused tobacco companies of circumventing new laws on tobacco advertising by pouring money into sports sponsorships.

■ The World Medical Association has called on the International Civil Aviation Organisation (ICAO) to ban smoking on all international passenger flights by July 1 1996.

The ICAO is meeting in Montreal to review progress on a ban on smoking.

"It is essential that the ICAO is not deflected by opposition from the tobacco industry," said WMA secretary-general Dr Ian Field. "Smoke-free flights are popular with passengers and an essential ingredient to a healthier world."

The WMA is an independent group of professional national medical associations from 64 countries, representing more than 3-million doctors.

Cigarette price rise

(198) (~~397~~)

Staff Reporter

CIGARETTE prices have risen 20c for a pack of 20 and 30c for a pack of 30.

Dan da Silva, spokesman for a firm of tobacco wholesalers, said the company was told of the increases by tobacco companies on Wednesday.

ARG 6/10/95

Tobacco Institute gave us snuff, say pupils

BD 31/10/95 (198)

Kathryn Strachan

TEN-year-olds who visited the Cotton and Tobacco Institute near Rustenburg on a school trip recently said yesterday their tour guide told them tobacco was not harmful, and that they were given snuff to try.

Jan Rees related how the tour guide, as part of his lecture, said there was no proof that smoking caused cancer. "He explained that smoking is not bad for you," she said "One girl said: 'My mother said that's not true,' and he said: 'Well, your mother is wrong' "

Her classmate, Alexi McCarthy, added: "They also said snuff is not so bad for you and it helps clear your sinuses They left the snuff on the desk and said we could try it if we wanted to Our teachers were with us Nearly all the kids tried it," she said

"He said people who tell you smoking is bad for you are just trying to get you to stop buying cigarettes and the only bad thing about smoking is that it is addictive," Rees said

Another classmate, Lise du Plessis, said "The next day our teacher told us smoking was bad for us and that we should not start smoking "

Rees's mother, Dr Sue Goldstein, said she was horrified when her daughter told her of the outing She contacted the Gauteng education department, which was investigating the matter

The Tobacco Institute could not respond to Business Day yesterday, but in a letter to the National Council Against Smoking, which took up the issue, institute director Dr GD Joubert rejected the allegations "We never supplied snuff to children, nor did we indicate that tobacco was not harmful," he said A total of 4 550 children had visited the institute this year

Council director Yussuf Saloojee said the institute was acting illegally by giving tobacco products to children younger than 16 He criticised it for undermining health department efforts

Richemont in Hong Kong deal

CT (BR) 1/11/95 (198)

BY NEIL BEHRMANN

London — Richemont, the international arm of the Rembrandt Group, has become a majority shareholder in the upmarket Hong Kong retailer, Shanghai Tang

The deal was worth $13 million (R47 million) Shanghai Tang intends expanding in other cities and is already considering opening a store in London.

Shanghai Tang, which was founded 18 months ago by tycoon David Tang, sells Chinese-style clothing and products under its own label from its single Hong Kong store

Richemont bought a large minority shareholding in Shanghai Tang several weeks ago, but the latest deal enables it to lift its shareholding to more than 50 percent

Tang said the link with Richemont was aimed at creating and sustaining "China's first international brand".

The Rembrandt Group had proven expertise in marketing branded luxury products, he said

He said the store's products were not only focused on the upwardly mobile.

"We want to be the Marks & Spencer of Chinese things in the future," he said.

The store intended to appeal to a broader base of customers who consciously wanted Chinese designs and brands, he said

Richemont had no plans to change Shanghai Tang's fashion concept and the Rembrandt group's products would not vie for consumer attention on the shelves of the Hong Kong store, a Shanghai Tang spokesman said

Shanghai Tang intends to expand its Hong Kong store to about 4 500m². It then plans to spread the Shanghai Tang brand by opening a store in the Shanghai Museum in the next few months

Shanghai Tang has also held talks with several parties who would like to be involved in a London store

Richemont is the holding company of a diversified tobacco and luxury goods group, including Rothmans International and Vendome Luxury Group Its brand names include Rothmans, Dunhill, Piaget and Mont Blanc

Hong Kong analysts said that Shanghai Tang had the potential to open five to 10 more stores in Asia and cities such as New York, San Francisco, London and Paris

Its founder was well known and the Rembrandt group's connections would also help, the analysts said

Richemont in Hong Kong deal

(198)

By Neil Behrmann

Star (BR) 1/11/95

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COMPANIES

Smaller Romatex benefits from focusing on textiles

(198) ST (BT) 5/11/95

By MARCIA KLEIN

ROMATEX, which unbundled in December from bulk storage company Island View Holdings to become a focused textile group, has managed to brush off the effects of illegal imports, a downturn in the local market and uncertainty over tariff cuts

The CG Smith subsidiary this week reported 32% higher earnings at 113,7c a share in the year to September on a 17% rise in turnover to R517,8-million on the back of good performances by its four divisions and despite large rises in its costs

The group came under pressure in the second half While attributable profit was 32% up, it was 100% up at the interim stage

Mike Hankinson, Romatex's chief executive and vice-president of the Textile Federation of South Africa, said the long-awaited announcement by the Department of Trade and Industry of a phase-down in tariffs had brought certainty to the industry But it was not a major issue for Romatex as some divisions were not affected while others were to a limited degree only Illegal imports, on the other hand, remained a problem.

"Illegal imports and duties are two different issues Duties assume the goods are imported legally, but with illegal imports, which remain an area of concern, duties are irrelevant," he said

Mr Hankinson said the group's unbundling was prompted by the need to adapt to a new trading environment in line with Gatt The local industry was being forced into the global market and to compete against low-priced imports from other developing countries

Romatex has developed textile and floor covering business which can compete in value-added as opposed to commodity markets and which can compete internationally and against imports

On the performance of the four divisions, Mr Hankinson said the Hextex wool division increased earnings and market share in the domestic and export markets

Home textiles' results were good despite soft trading conditions in the second half

Cotton division Berg River Textiles benefited from increased plant utilisation, productivity gains and better exports, but couldn't maintain margins because of the high raw material costs Raw material prices have since levelled off and some have dropped

The floor coverings division experienced difficult trading conditions from April

Mr Hankinson said that at this time last year trading conditions were buoyant as a result of post-election optimism There had been a stabilisation of the stock pipeline, a consolidation in line with international trends "But there will still be a Christmas"

Despite a high level of capex — to improve international competitiveness and productivity and to increase capacity — Romatex remains ungeared

Mr Hankinson said the unbundling had enabled Romatex to be a smaller, more focused business "The four divisions are diversified and different, so we do not rely on one raw material or one sector The unbundling gives us the ability to focus"

It has also enabled it to focus on being world competitive "One of the big testing factors of world competitiveness is can you export everywhere in the world We are progressing steadily along that line, and all our divisions are exporting, largely to the US, European Union and the East"

He expected markets for textiles and floor coverings to grow "The market is generally quieter, but with our equipment, facilities and designs we are cautiously optimistic and expect to show real growth next year"

MIKE HANKINSON· Romatex's chief executive

Richemont to benefit from shrinking rand

CT(BR) 27/11/95 (198)

By Charlotte Mathews

Johannesburg — The market is forecasting tobacco, luxury goods and media group Richemont will report an increase of between 15 and 30 percent in rand terms in the six months to September compared with last year when it reports results on Friday

Analysts said Richemont's rand earnings were likely to benefit from the depreciation of the rand against the pound over the past year. This year the rate is about R5,70 to the pound, compared with about R5,56 a year ago

In pounds sterling, forecasts for interim earnings are between £21,6 to £24,8 a unit compared with £19,64 a year ago

According to one analyst, there are several difficulties in predicting the half-year results. Richemont bought out the Rothmans International minorities at the end of July and although this deal was said to be tax-effective, no details have been given

It is also uncertain where the additional liability in taking out minorities will be incurred in the group

There were also exceptional items last year — such as property sales — which made it difficult to determine the underlying sustainable profitability of the businesses

He said earnings in the first half of the current year were likely to be slightly lower than in the second half because the Rothmans minorities were taken out about halfway through this period, but the year as a whole should show growth of about 15 percent

Luxury

The consensus among analysts appeared to be that the luxury goods business, held through subsidiary Vendome Luxury Group, and the tobacco business, held through Rothmans International, will both have performed well

This was hinted at by chairman Nikolaus Senn, who told the annual general meeting in September that both divisions had reported satisfactory results during the first quarter of the year

In the luxury goods division, profits may be flattened by a higher tax charge as previous tax benefits have been fully used up

In the tobacco division, an analyst said the benefits of the cash flow from Rothmans International would outweigh the finance costs incurred in buying out minorities in July this year. The main areas of growth for tobacco appeared to be Europe, particularly Eastern Europe, and the Pacific Rim countries

Losses from the media interests were likely to continue for the next three years, the company has warned Analysts placed the losses at about £25 million in the first half.

However, one analyst added that the 1996 calendar year would be the acid test for the media interests Next year would determine whether the media group was successful in selling the $500 million of decoders they had ordered If the media interests do perform well, they could grow to about half the current size of the group.

Richemont units eased 25c to R54 in a generally soft market yesterday, but they were still close to their year's high.

The units, together with Rembrandt shares, have been boosted by a recent announcement that the two groups were discussing a possible merger of their tobacco interests

Advertising ban looms for tobacco firms

ARG 30/11/95 (87) (198)

Staff Reporter and Sapa

THE government is considering banning tobacco advertising, as are several other countries, says Director-General of Health Olive Shisana.

"It is something to think about seriously, because (tobacco companies) are advertising death in a sense — the premature death of people," said Dr Shisana.

She acknowledged the issue was controversial and that in Canada tobacco companies had used the constitution to fight a proposed ban.

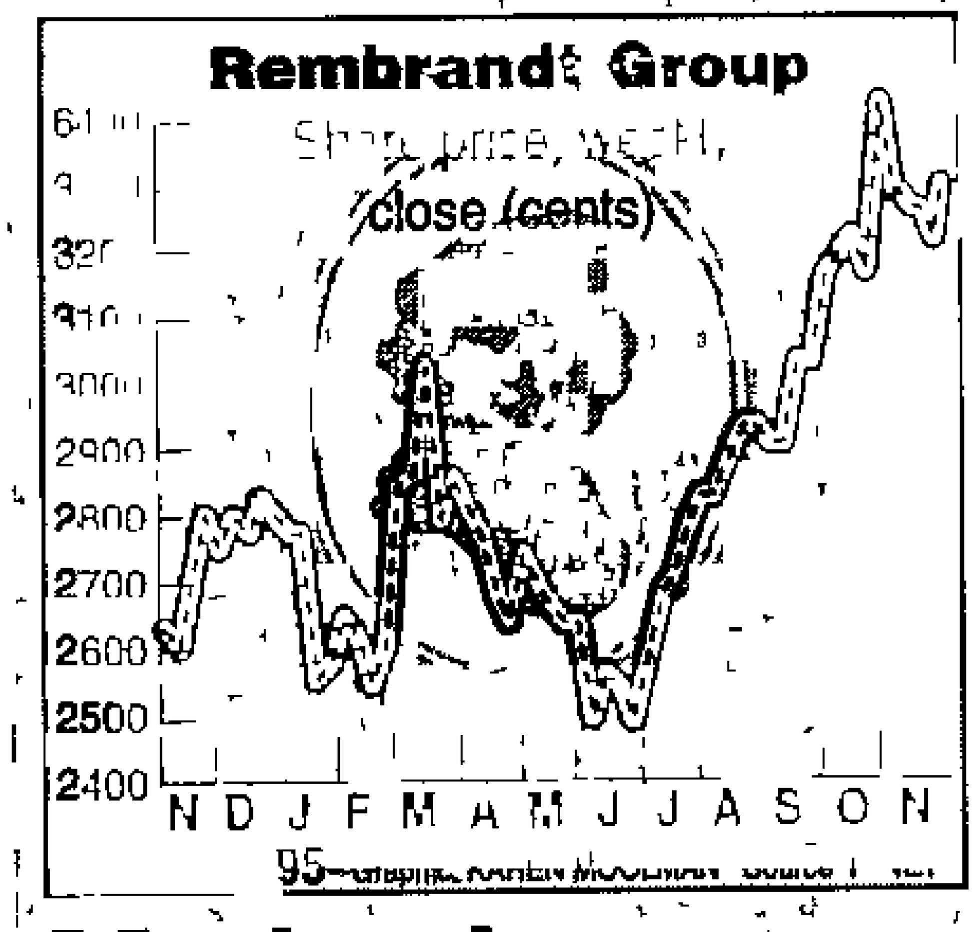
Dr Shisana noted that as from October 31 no shop was supposed to have on its shelves tobacco products that did not carry a health warning.

"We will take very serious steps against those that don't comply" she said.

She had told several tobacco companies that the department would lay charges against them without further reference unless they increased the size of the warnings on their advertisements to comply with the Tobacco Products Control Act.

Medical Research Council president Walter Prozesky said the council would support a ban on tobacco advertising because it would be in the interests of the health of the country — "because the facts say there is no doubt somking is harmful to health".

Dr Prozesky said it was the council's business to provide the facts, "which we've done".



Metkor boosts Remgro figures

Edward West BD 1/12/95 (198)

CAPE TOWN — Rembrandt Group (Remgro) lifted attributable income 74,7% to R673m in the six months to end-September on the back of a strong performance by its tobacco interests.

The results showed operating income before interest and depreciation 40,3% higher at R849m. The operating income reflected mainly the results of group tobacco interests.

Net attributable earnings, after exceptional items, amounted to 128,9c a share (73,8c previously) However, directors warned that the rate of increase in net earnings was significantly influenced by exceptional items which were variable in nature, so net earnings were not a fair reflection of the growth in sustainable earnings

Profit before exceptional items increased 31,5% to 128c a share. Turnover shot up to R4,6bn (R2,5bn). However, R1,8bn of the increase in sales stemmed from the inclusion of Metkor Group's results. If Metkor's contribution was not taken into account, group sales would have increased 12,9%.

A JSE analyst said he was "amazed" by how well the group had performed "The improvement must have come from the rationalisation of its tobacco facilities, as Rembrandt has been saying that tobacco sales volume growth

Continued on Page 2

Remgro (198)

BD 1/12/95

Continued from Page 1

has been relatively flat. The increase in excise duties in March must also have had a negative effect on volumes," he said

Dividend income, mainly from investments in companies such as Gencor, Engen and Malbak, was slightly lower at R113m (R115m). Income from associates, including Distillers, SFW, Medi-Clinic, Total and Transhex, increased 84% to R149m. Taxed income was 29,8% up at R557m The increased income from associates resulted in net income before exceptional items growing 38,4% to R706m An exceptional profit of R2m was reported — against an exceptional loss of R123m a year earlier — pushing net income up 83% to R708m.

Rembrandt Controlling Investments increased net attributable income before exceptional items 31,7% to R341m, while Technical Investment Corporation increased net attributable income to R138m from R105m on the same basis. Technical and Industrial Investments, with a 17,4% interest in Remgro, increased attributable income before exceptionals to R116m (R88m)

Richemont boosts profit

(198)

By Charlotte Mathews

Johannesburg — A good performance from its core tobacco and luxury goods interests contributed to a 32 percent improvement in earnings from Swiss-based Richemont to £26,54 a unit in the six months to September, compared with the same period last year.

Net sales revenue grew 9 percent to £2,1 billion while operating profit was 5 percent higher at £354,1 million.

According to the directors, the tobacco interests, held through Rothmans International, improved operating profit by 4 percent to £264,1 million while Vendôme Luxury Group reported operating profit 15,4 percent higher at £113,3 million.

The group's share of losses from its media interests, held through Nethold, eased to £14,9 million from £16,1 million.

CT (BR) 1/12/95

Remgro seals tobacco merger worth R26bn

ET(BR) 1/12/95 (198)

By Maggie Rowley

Cape Town — Richemont and the Rembrandt group (Remgro) have reached agreement on the merger of their tobacco interests to form an international, unlisted tobacco group worth about R26 billion

The new company will have a combined annual turnover of about R17,3 billion and operating profit of about R4 billion

Richemont's tobacco interests comprise Rothmans International, its subsidiaries and associates while Remgro's tobacco interests comprise its South African businesses held by a newly established company, R&R Tobacco Holdings, and its other tobacco investments in the southern African region

In a joint statement the companies, which have been operating under cautionaries to shareholders since September 20, said the respective tobacco businesses would be merged under Rothmans International with Richemont holding two thirds of the enlarged Rothmans International group and Remgro one third

The equity interests have been arrived at by reference to relative values of about R17,3 billion for Richemont's tobacco interests and about R8,7 billion for Remgro's.

According to the companies the merger will unify two business which have a common heritage and trade marks. It will reinforce Rothmans International group's position as the fourth largest tobacco company in the world, better positioning it "to participate in any potential industry consolidation."

The companies said the merger was expected to be broadly neutral in terms of its effects on the earnings of either company

Longer-term synergies between the respective tobacco interests could well be achievable, they said

In terms of the merger, Richemont would benefit from Rothmans International's investment in the leading South African tobacco company while the enlarged group would be the leading tobacco business in Africa, they said.

For Remgro the merger was the only practical route through which it could expand internationally and thus benefit from diversification of its tobacco markets and exposure to developing markets in Asia and Eastern Europe

(198)

Group profit surges 31%

ET(BR) 1/12/95

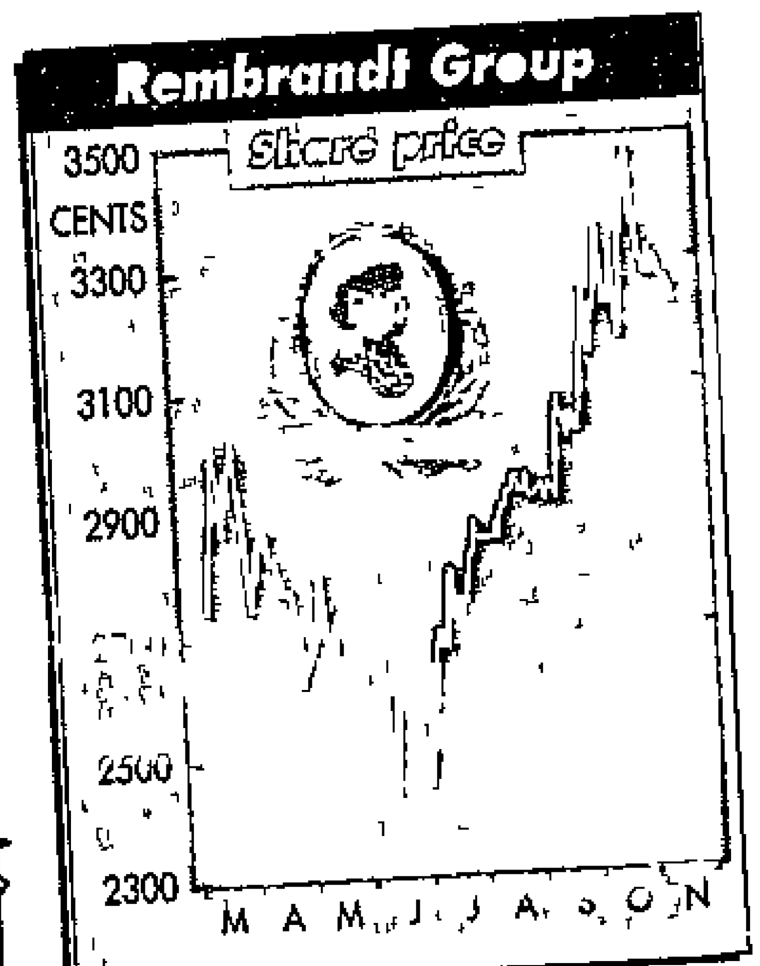
By Maggie Rowley

Cape Town — The Rembrandt Group (Remgro) lifted net attributable earnings before exceptional items by 31,6 percent to 128c a share for the six months to end September.

The improvement after extraordinary items were taken into account was even higher at 74,7 percent because of expenses incurred during the corresponding period last year and partly due to the provision relating to health warning legislation and rationalisation costs.

The directors said, however, that this percentage increase was affected by items which were variable in nature and the improvement was not a fair indication of the growth in sustainable earnings.

Turnover — consisting of net sales of products including excise duty, fees, rental and investment income — amounted to R4,6 billion (R2,5 billion) of which about R1,8 billion resulted from the inclusion of the Metkor Group and its recently consolidated subsidiaries.



On April 1 this year, the group increased its interest in Metkor by 25,8 percent to 75,7 percent by exercising a pre-emptive right at a cost of R101 million.

An interim dividend of 24,5c a share (19,6c) was declared in August and paid in October.

Remgro shares closed 75c up at R33 on the JSE yesterday.

New Rothmans group to be number four

(198)

Business Editor ARG 1/12/95

THE new Rothmans International group, formed from the merger of Rembrandt's and Richemont's tobacco interests, will sell 200 billion cigarettes a year, making it the fourth biggest tobacco company in the world

In a statement issued today, the two groups said operating income would top R4 billion a year.

The merger, which creates a R26 billion company owned two-thirds by Richemont and one third by Rembrandt Group (Remgro), was the only way for Rembrandt to expand its global tobacco operations, they said

The relative stakes were determined through a valuation of Richemont's interests at R17,34 billion and Remgro's at R8,67 billion

■ **Remgro** reported shareholders' profits — before exceptional items — up 32 percent to R706 million in the six months ended September, on the back of a 40 percent increase in turnover Changed accounting practices for exceptional items, including provisions for new health warnings on cigarette packets, showed attributable profits at R673 million.

■ **Norwich Holdings** said its public offer of 8,6 million shares at 515c a shares, which closed last week, was oversubscribed 3,2 times and the preferential offer to shareholders of 21,3 million shares was oversubscribed 2,3 times

A private placing of 35,5 million shares brought the total raised to R371 million, with market capitalisation close on R1,5 billion ahead of Monday's listing

■ **PresHold** shareholders are to get a free distribution of the company's 19 million PresMed shares, in the ratio of 43-for-100 by way of an unbundling announced last month PresHold shareholders will also be able to convert their shares in PresHold into convertible preference shares and redeem them at 20c a share

■ **Crendell Investments** is to be constituted as a cash shell if permission is granted by the tax authorities for the unbundling of its Saflife shares, the group's only investment, to shareholders Crendell has already sold 36 percent of its stake in September.

The group's loss swelled to R44 million from R13 million in the six months ended September

Remgro 'is likely to restructure interests'

BD 4/12/95 (198)

Edward West

CAPE TOWN — Rembrandt's merger of its tobacco interests with those of Richemont represented the second phase of the rationalisation of the Rupert family interests, and would probably be followed by a restructuring of Rembrandt's industrial interests, analysts said at the weekend.

The first phase was the creation of Swiss-based investment holding company Richemont, with its luxury goods, media and tobacco interests

The latest deal brings the groups' tobacco interests together into a R26bn international company under Rothmans International, with Richemont holding two-thirds of Rothmans and Remgro one-third

Remgro public affairs director Hans Knoetze said the tobacco merger had been on the backburner for four years The deal saw Remgro's share price rise 75c to R33,75 on Friday after rising by the same amount the previous day. The share price for Rembrandt Beherend, which has controlling interest in Remgro, rose 75c to R23,25 Richemont shares rose 75c to R51,75

"What the shareholders are getting is a company with critical mass on a global basis, the fourth-largest tobacco company in the world," an analyst said. Benefits would accrue to Rembrandt via Rothmans International's marketing abilities, while Richemont could benefit from cost savings through the use of local manufacturing capacity.

"The foreign operation has its production in hard international currencies — relatively expensive in SA terms Rembrandt's production is concentrated in three factories as opposed to 32 in Richemont. Rembrandt could push up capacity utilisation by a factor of between 1,5-1,75 without significant capital spending," the analyst said.

Rothmans would also benefit by becoming the biggest tobacco group in Africa. It has licensed Remgro to manufacture and market Craven "A" and Dunhill cigarettes in southern Africa.

But the value placed on Rembrandt's tobacco interests showed that production capacity represented a relatively small factor on which the terms of the deal were based "The value in the tobacco industry lies in its brands," another analyst said.

"With the establishment of the new company, the risk profile of Rembrandt's cash flows generated by its brands is now substantially reduced. Simply put, two-thirds of its cash flow from tobacco is now sourced offshore," one analyst said. "The question is, what is Rembrandt going to do with its other investments such as HL&H, its liquor interests, Gencor and Malbak Will it unbundle them, sell them or restructure them?"

Zuma gets tough on tobacco

BD 5/12/95 (198)

SOMERSET WEST — Health Minister Nkosazana Zuma said yesterday she had no immediate plans to call for an outright ban on tobacco advertising but hinted that a further package of anti-smoking measures might be in the pipeline for next year

"Obviously we have to increase our campaign against smoking

When I introduced the first measures I said this is not going to be the end," Zuma said in an interview at the 11th Commonwealth health ministers' conference in Somerset West in the Western Cape.

However, further steps will not be taken until the health department has assessed the effectiveness of its anti-smoking campaign, in particular the health warnings screened during and after cigarette adverts in cinemas and printed on the sides of cigarette boxes

"From the comments I have got I think they have been very effective. I have had very positive feedback

"I am not sure about the billboards though — it does not look like they have worked"

Zuma said she was also keen to meet radio station managers to discuss ways of diversifying their income in order to end their reliance on tobacco advertising Although she had not yet taken a firm decision about a ban on tobacco advertising, it was something that had to be examined

"We have to decide whether it is the best way, or whether we ban certain forms of advertising.

"My major objective is to stop kids from smoking."

She indicated that further anti-smoking measures were in the pipeline but was reluctant to give details

She said she did not want to create the perception that the measures emanated from the conference, which began its deliberations yesterday.

The effect of smoking on women will be one of the issues which health ministers and senior officials from more than 30 Commonwealth countries will be examining during the four-day conference

Canadian health minister Diane Marleau told her counterparts that tobacco use was the leading cause of death and disease in Canadian women, with more than 15 000 deaths a year.

It was estimated that by 2020 about 1-million women worldwide would die annually from tobacco use. — Sapa.

Cape boundary dispute decision expected

CAPE TOWN — The Special Electoral Court should make known its decision on the Cape metropole demarcation dispute by tomorrow, a spokesman for Western Cape local government MEC Peter Marais said yesterday.

The court was scheduled to sit yesterday and today to consider Marais' proposal to include Crossroads, Guguletu and Nyanga in the Tygerberg substructure and Khayelitsha and Langa in the Cape Town sub-structure.

The dispute led to the local government elections being postponed until next year in the Cape metropole.

After an agreement could not be reached in the provincial demarcations committee, the matter was referred to the Special Electoral Court.

The ANC, the NP, the DP, the Cape Town city council, and the Cape metropolitan council all have counsel representing them at the hearing. — Sapa

(253) BD 5/12/95

Transkei health crisis

Own Correspondent

BD 5/12/95

BISHO — A crisis situation should be declared in former Transkei health services, says a report which has been submitted to President Nelson Mandela and which was presented to the Eastern Cape government yesterday.

Urgent attention should be given to improving dilapidated hospital structures, beefing up security and improving departmental communication channels to address hospital workers' grievances, the provincial standing committee on health recommended in the report.

The report was compiled after a tour of 26 hospitals throughout the Eastern Cape.

It said almost all hospitals suffered from under-staffing problems, absenteeism, poor security, a lack of equipment, insufficient drugs and disintegrating services

It recommended the involvement of all relevant government departments and the establishment of a departmental labour-relations unit to assist in labour issues.

Other key problem areas included inadequate transport facilities, poor roads and chaotic conditions at mortuaries.

ANTI-SMOKING STRATEGY ON TABLE

Commonwealth call for tobacco ads ban

CT 6/12/95

(198)

SOMERSET WEST: The Commonwealth secretariat has proposed a tax hike that would make tobacco more expensive.

A BAN on tobacco companies' promotion of sports events and advertising is being considered by more than 30 Commonwealth countries.

Officials attending the Commonwealth health ministers' conference in Somerset West are also considering a call for tax hikes to increase the price of tobacco

The recommendations are included in a 10-page submission by the Commonwealth secretariat on the effect of smoking on women.

The submission also proposes that members co-ordinate efforts to identify alternative cash crops for countries that are dependent on income from tobacco exports

Spokesman Mr Michael Fathers said the conference could choose to ignore the recommendations or adopt some of them

Canada's Minister of Health, Ms Diane Marleau, told the conference on its opening day on Monday that smoking-related diseases were the single biggest cause of death among Canadian women.

The secretariat submission describes smoking as an "epidemic" that claims more than three million lives a year, one million of these in developing countries

Unless the trend is reversed, the world figure is expected to rise to 10 million a year by the 2020s or early 2030s, with 70% of this number in developing nations.

The submission notes that in 1990, 30% of smokers were adolescents and young people It predicts that if no change takes place in smoking patterns, 200 million of the world's youth will die as a result of smoking

If significant progress is to be made towards smokeless societies, the focus on prevention will have to shift from adults to adolescents, particularly young women and girls

Tobacco campanies' "sophisticated marketing methods utilise all the information about factors which influence starting and maintaining tobacco addiction — and are proving very successful", the submission says

While tobacco use and production are on the decline in the United States and Western Europe, they are on the increase in the world's developing nations, particularly those in Asia and the Western Pacific — Sapa

Plight of doctors highlighted

CT 6/12/95

PRETORIA: [illegible] by doctors have been highlighted by [illegible] working group here.

A joint statement by the Health Department and Medical Association of South Africa has given [illegible] recognition to financial and legislative constraints in the public [illegible]

The report was given to Health Minister Dr Nkosazana [illegible] this week.

It is believed the report [illegible] help Dr Zuma [illegible] service conditions [illegible] on the [illegible] salary grading system next year

Problems highlighted in the report included the maldistribution of doctors caused by [illegible] working conditions and the tendency of medical graduates to [illegible]

Total ban on tobacco ads mooted

(198) Star 6/12/95

Commonwealth proposals currently being discussed at a health ministers' conference include tax hikes and price rises to prevent a surge in smoking-related deaths

SAPA
Somerset West

Health ministers and senior officials from more than 30 Commonwealth countries were yesterday considering recommendations for a complete ban on tobacco advertising and tobacco companies' promotion of sports events.

The recommendations, which form part of a 10-page submission by the Commonwealth secretariat on the effect of smoking on women, also urge tax rises in member nations to increase the price of tobacco and reduce its affordability.

It also proposes that members collaborate with the secretariat in co-ordinating efforts to identify and establish alternative cash crops and develop markets for countries heavily dependent on revenue from tobacco exports

It notes that tobacco-producing countries face the double challenge of preventing the development of serious tobacco usage while also reducing economic dependence on tobacco production

Commonwealth spokesman Michael Fathers said the steps were being discussed at the 11th Commonwealth health ministers' conference in Somerset West, which began its deliberations on Monday.

However, it is understood the discussions are likely to encompass widely differing views A major tobacco producer like Zimbabwe, for example, is not expected to see eye-to-eye with Canadian Health Minister Diane Marleau, who told her counterparts on Monday that smoking-related diseases were the single biggest cause of death among Canadian women.

Both the Zimbabwean and Canadian delegations have scheduled press conferences for today to spell out their positions

Fathers said the conference could choose to completely ignore the secretariat's recommendations, or adopt some or all of them

The secretariat submission describes smoking as an "epidemic" that kills more than three million people annually, one million of them in developing countries

Unless current trends were reversed, the global figure was expected to rise to 10 million annually by the 2020s or early 2030s, with 70% in developing nations

"A very disturbing aspect of the current smoking epidemic is the large proportion of young people and adolescents who smoke – 30% of all smokers in 1990, and as many girls as boys"

It predicts that if no change takes place in smoking patterns, 200 million of the world's youth will die as a result of smoking

If significant advances were to be made towards a smokeless society, the focus on prevention of smoking had to shift from adults to adolescents, particularly young women and girls

The secretariat paper sees women and adolescents in developing nations as being particularly vulnerable to the tobacco industry's aggressive advertising and promotion campaigns. "Their sophisticated marketing methods utilise all the information about factors that influence starting and maintaining tobacco addiction – and are proving very successful"

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Cigarette industry's spending on ads slides

BD 7/12/95 (198)

Jacqueline Zaina

ADSPEND in the cigarette industry declined 4% to R155,5m from September 1994 to August this year, compared to the same period the previous year, with print media taking the biggest knock

In terms of Adindex figures, investment in print advertising by cigarette companies decreased 18,5% to R56,5m in the year to end-August 1995 from R69,3m the year before, despite an overall print category growth of 15%

BSB Bates media planner for United Tobacco, Pius Masisi, said that production costs had escalated after implementation of regulations set out by the health department which had cut into above-the-line media spend

Cigarette companies' share of total adspend for the year to end-August declined to 3,5% from 4,3% the year before.

Tobacco companies were spending 1,7% less on cinema advertising, but had increased radio spend 6,6% to R54,6m

Television, which continued to grow at a faster rate than any other media, attracted more spending from tobacco companies. Their investment in TV increased 21,6% to R7,2m in line with the overall growth rate

In terms of legislation on labelling and advertising of tobacco products passed by the health department, cigarette advertisements had to carry health warnings the equivalent of 12% of the advert size, said Masisi

A spokesman for a leading cigarette company said that while they were obviously upset about the legislation, they would continue to use all media types

"Changing our packaging and advertising material across five media types was an expensive exercise, but we remain marketing people," he said

Tobacco men growl at double standards

(587) (198) Star 7/12/95

Somerset West – Tobacco and its associated health risks have divided delegates to the 11th Commonwealth Health Ministers conference in Somerset West, with Zimbabwe, the world's third largest tobacco exporter, saying yesterday it has no moral problems with the cash crop

Zimbabwe's Health Minister Dr Timothy Stamps said he found it offensive that many of the countries complaining about tobacco-related health risks benefited from taxes on cigarettes

The British Government alone earned R50-billion from domestic taxes on the same amount of tobacco which earned Zimbabwe only R200-million in foreign exchange

"Why must we cut our economic throat by not producing tobacco when we know that if we stop, Brazil and the US will just step in to fill the void? The senior countries are just blaming the junior countries for their problems

"We are not forcing anybody to buy tobacco " – Sapa

Smoke surrounds new tobacco deal

M+G 8-14/12/95 (198)

Lynda Loxton

SOME analysts were somewhat sceptical this week about the much-publicised decision by the Rupert family empire to merge their tobacco interests in Rembrandt Group Limited (Remgro) and Swiss-based Richemont Securities AG.

The merger will create a new, unlisted global tobacco giant, to be known as R&R Tobacco Holdings, which will incorporate Remgro's tobacco business in South Africa and Richemont's wholly-owned Dutch subsidiary Rothmans International BV.

It will be the fourth largest tobacco group in the world.

Although Remgro has said that the aim of the merger was to position it "to participate in any potential industry consolidation" while giving Richemont entry to the South African market, few see any immediate or tangible benefits arising out of the deal.

"It will not increase Remgro earnings as it will get a third of the profits of the new group based on its existing tobacco interests," said one analyst.

Others were more cynical.

"The bottom line is that this will help (chairman) Johan Rupert realise his life-long ambition of extracting as much money out of South Africa as he can," another analyst said.

Rupert has long railed against the government in general and the Reserve Bank in particular for not allowing local firms to invest freely abroad.

"He obviously feels that he has invested enough in South Africa and that it is time to go abroad in a bigger way ... there will certainly be no material benefits here," the analyst said.

"It is a certain bet that the new company will be based abroad and not all profits will find their way back here."

He said there was nothing "sinister" in this, but a reflection of the fact that some profits would be held back by the new company for further investment elsewhere, probably in Eastern Europe, which is a hot favourite among tobacco companies these days.

It is a certain bet that the new company will be based abroad and not all profits will find their way back here

Remgro will have a one-third interest in the new company, which will pay dividends bi-annually of at least 50 percent of its consolidated attributable income. It will have a joint operating profit of sterling 700-million while its net tangible assets will be more than sterling one-billion.

"They also claim that the new company will be able to undertake an extensive rationalisation of production facilities in Africa, but to what extent that should precipitate this move in questionable," the analyst said.

There has been some speculation that Remgro's next step could be to unbundle or restructure its industrial assets. But troubled subsidiaries such as Hunt Leuschars and Hepburn (HL&H) are believed to require huge injections of cash to get back on their feet and were not likely to be prime candidates for sale for some time.

Both Remgro and Richemont last week reported strong results, which, together with the news of the merger, significantly boosted share prices.

"But I'd rather be in Richemont than Remgro at the moment," said one analyst.

'ICHEMONT/ REMBRANDT

(198) FM 8/12/95

Taking the tobacco control offshore

The Rupert family's international business is turning full circle with the announcement of the proposed merger of Swiss-based Richemont's and SA's Rembrandt Group (Remgro)'s tobacco interests

It has been a long process. It began seven years ago when Johann Rupert, now MD of Richemont and chairman of Remgro, hived off the offshore interests of Remgro — the company founded by his father Anton — into the newly created Swiss-based Richemont, a company controlled by the Rupert/Hertzog families

The publicly stated rationale then was that the overseas investments needed to be housed in an offshore company of sufficient size to meet the demands of the ECC

Over subsequent years, Rupert emphasised there was no link between Richemont and Remgro Apart from cross-directorships, he wanted the two to be considered separate companies

The link will be restored when Remgro, effective from the beginning of October, injects its southern African tobacco interests into UK-based Rothmans International — a wholly owned subsidiary of Richemont since minorities were bought out for £1,65m in July this year

What the merger means is that the interests built up by the Ruperts are now largely held (and controlled) offshore

The timing is favourable, coming when both groups reported strong interim results Remgro showed EPS growth of 31,5%, Richemont a similar increase in sterling earnings/unit

The implications of the merger, though, are vast and by no means fully clear Why are Richemont and Remgro consolidating their tobacco interests now, after being so particular about having them seen to be separate in the past? And what's to be the future of Remgro?

One surprise which does emerge is the high value placed on Remgro's tobacco interests, which — though including other southern African countries — are essentially SA-market based.

Relative values used to determine the equity interests in Rothmans International apportion one-third of the enlarged group to Remgro That translates to about £3bn (R17,3m) for Rothmans International in its present form and £1,5bn (R8,7bn) for Remgro's tobacco interests — a total R26bn

These interests account for just over half Remgro's earnings, derived largely from its dominance of the SA tobacco market, where its share is about 86% But Rupert points out the values are relative — no cash is being paid either way

Why now? Remgro MD Thys Visser says the environment has changed and is right for the merger It may not have been possible before — authorities are now taking a different view on deals of this nature

However, the spark for the merger — speculated about for a number of years and probably discussed for some time between Remgro and Richemont — was the recent acquisition of the outstanding 39% of Rothmans International by Richemont

Taking a long perspective on the development of Richemont (and Rupert works in the long term, at times spending several years planning deals), the merger is one more step in growing the critical mass of the international tobacco business


Rupert

Rothmans was a joint investment (with Philip Morris) held by Remgro when Rupert took the interests under the new holding company in Switzerland The holding in Rothmans was gradually built up A significant subsequent development came two years ago, with the removal of cross-shareholdings and separation of Richemont's operations into two companies — Rothmans International and Vendôme — to hold the tobacco and luxury goods interests respectively

Then 100% control of Rothmans was acquired in July This, in results to September 30, is partly behind the fall in Richemont's cash holdings from £1,3bn to £677m and 10-fold rise in debt, to £1,1bn Now the cash base and markets in which Rothmans International operates will be increased

Many reasons for the deal have been listed, but perhaps the most pertinent is that the enlarged group will be able to "participate in any potential industry consolidation" That has caused speculation that the Richemont/Remgro tobacco merger may be the first step towards a larger merger with an international competitor

Ruperts says no Richemont is not talking to anyone in particular, but "the merger will allow us to participate from a position of strength in any possible deals"

"Internationally, the tobacco industry has been characterised by consolidation and there will be further rationalisation," he says "It would be presumptuous of me to say that we would merge with another group — we are the fourth largest tobacco group in the world, but far smaller than the big players

"However, the larger capital base offered by the merger will allow us to talk to others about regional co-operation"

Much remains to be done, Rupert says The next logical step could be an agreement — possibly a joint venture or alliance — to further expand Rothmans International's markets For Richemont, this is where the merger seems to be heading

In terms of the proposal, Remgro will become a one-third equity partner in the enlarged Rothmans International group and share in the development of its international tobacco interests

Richemont will consolidate results of Rothmans and receive dividends in proportion to its two-thirds equity holding Remgro will receive dividends equal to its one-third stake and equity account its attributable share

Dividends will be equal to at least half Rothmans' attributable earnings So while Remgro effectively has its cash flow transferred overseas, it gets at least half back in dividends, potentially enhanced by the large hard currency earnings from Rothmans

Visser says that, in essence, there will be no change to Remgro "Earnings from our tobacco interests will not be diluted in any way The SA operations will be managed as before We are simply swapping our southern African tobacco interests for one-third of a larger, international group"

Aside from its Rothmans stake, Remgro retains its investments (including subsidiaries Metkor/Dorbyl and HLH/Rainbow) But most of the portfolio comprises basically passive investments in which Remgro has some management input with other shareholders.

What will become of these? There has

CONSOLIDATION BOOST

Rembrandt Six months to	Sep 30 1994	Mar 31 1995	Sep 30 1995
Operating income (Rm)	605	782	849
Attributable (Rm)	385	564	673
Earnings (c)†	97	125	128
Dividends (c)	19,6	30,36	24,5

† Before exceptional items

P.T.O

been speculation that Remgro will restructure (possibly rationalise) them through unbundling or by gradually selling them

Visser says that is not "currently being contemplated" But further ahead some form of restructuring seems likely The investments — ranging from energy (Total, Engen) to mining (Gold Fields SA, Gencor), to food (HLH/Rainbow) and financial services (Absa) — have little or no synergy Shareholders could acquire all but the few unlisted investments directly

There is a possibility, though, that tobacco operations in SA could be expanded Rupert alludes to longer-term operational synergies Remgro's three factories in SA — particularly Heidelberg — are extremely efficient producers

With Rothmans International now entering the full African market, it might make sense to increase production in SA (which could be done at relatively little additional cost) and export to markets now not covered by Remgro

STRONG BOTTOM LINE

Richemont Six months to	Sep 30 1994	Mar 31 1995	Sep 30 1995
Operating profit (£m)	339	349	354
Investment income (£m)	16,9	35,9	21,1
Attributable (£m)†	116	146	152
Earnings per unit (£)†	20,17	25,44	26,54

† excluding goodwill and amortisation

The merger could also remove or ease risk, in the form of SA's increasingly hostile regulatory environment, with excise duties being increased and government health warnings which have to be carried on marketing material And the SA market, though extremely profitable due to the relatively higher margins Remgro gets through its dominance and low-cost production, has declined 2%-3%/year over recent years

Whatever the outcome, the proposed merger has captured market interest Share prices of both Remgro and Richemont have firmed strongly since mid-year

The rerating, though, has also been influenced by anticipation of good results Richemont is now widely considered to be entering a new growth phase And the market is realising that Remgro's tobacco interests are undervalued

The release of results has seen some revised forecasts from analysts Full-year EPS for Richemont should show an increase around 30%, lowering the forward p e ratio from the historical 21,1 to a less demanding multiple of about 15 Remgro will probably grow EPS about 25%, putting the share on a forward p e of around 12

Remgro's passive investments are largely unexciting, but the merger will increase the rand hedge exposure Potential longer-term earnings should increase too *Shaun Harris*

GOLD HEDGING

JCI rocks the market

The extent to which forward gold sales by some producers has exerted extraordinary pressure on the market became evident last week And many traders are pointing at SA mining house JCI as the main culprit

Widespread rumours over the past month suggested JCI was negotiating to place an unusually large — but unspecified — quantity of gold in the market

JCI's move has been in various stages for months but implementation was delayed by bickering between the house's gold division and its treasury

Speculation in New York when the physical gold price went into what is called "backwardation" (a term applied to describe a situation in which gold bought today is more expensive than quotations for future delivery) was that JCI had thrown a large quantity at the market at a particularly difficult time

"A backwardation of this kind is almost unparalleled," says a New York fund manager, "and it certainly took the market unawares" It signals development of a major liquidity problem and "when a market like this turns illiquid," says a Johannesburg trader, "it opens unusual opportunities to manipulate prices"

Approached for comment, JCI gold division CE John Brownrigg tersely responded "We don't make comments on matters between our quarterly reporting periods You'll have to wait until January 18 or 19"

However, this is not a matter which can be dismissed so easily JCI completed forward sales of 7,2m oz gross (4,2m oz on delta, a word applied to indicate that protection against risk has been built in) This is a massive 223,9 t of gold and, if the information is correct (it is from a traditionally impeccable source), it is the largest forward gold sale ever executed

Analysts say the only justification for a transaction of this size would be to safeguard a capital expenditure programme In JCI's case, this is its South Deep project, now part of Western Areas gold mine But estimates of forward production to the turn of the century from Western Areas is only about 101 t, so JCI's move effectively also embraces production from Randfontein and Joel over the next five years

The business of gold hedging is an intricate process in which the paper volumes of flows substantially dwarf the underlying physical situation Despite this, the physical and paper markets feed off each other and each are influenced by unusual activities

Forward gold sales by producers are effected by paper undertakings to deliver at predetermined dates and prices, these are cemented by borrowing physical gold from lenders, selling it into the market and investing the proceeds in secure instruments Because gold has little commercial application, the cost of gold loans, as reflected in lease rates, has been low — for long periods less than 1% a year

The attractions for producers and owners struggling to secure financing for new projects are obvious Unfortunately, on this occasion, a concatenation of events compounded what turned into a market squeeze. The largest lenders of gold are central banks, which operate under stringent regulations Many square their books as year-end approaches and they withdraw from active lending They may be circumscribed by their risk profiles A seasonal squeeze occurs as manufacturing jewellers and wholesalers fund their stocks with gold loans And good market order depends on regular hedging, consistently carried out

Regular SA hedgers tend to lock in as many of the variables of forward pricing as they can These include the spot price (in US$), the gold lease rate, the US$ interest rate But other producers, notably North American and Australians, often leave an element uncovered — in this case, they were exposed to the gold lease rate which hadn't moved in months When the crunch hit and the market scrambled to find the gold needed, gold lease rates suddenly roared into orbit, leaving producers clutching at their trousers

Over 1995, the gold lease rate has varied between 1,25% and 1,5% After the physical price moved into backwardation, the lease rate moved to between 5%-6% a year and, for a short time, the Tomnext (tomorrow next) market — for gold settlements within 24 hours — was as high as 10% When contracts are made or rolled over, the deal is executed at the prevailing lease rate for the duration of the contract

The issue of forward selling angers some investors London fund manager Julian Baring of Mercury Asset Management says selling forward may guarantee future cash flows but effectively limits the ability of a mine to participate fully in any price rises

This also raises the question of announcing deals of this kind to shareholders A standard requirement for listed companies is that events of a material nature must be signalled timeously to investors In JCI's case, however, this seems to have been overlooked At a recent JCI board meeting, the matter wasn't even on the agenda, so nonexecutive directors are as blind as anyone else about decisions affecting the profitability profiles of important mines

This highlights a real problem investors buying into companies with large forward sales positions may claim their decisions would have been different had they been in possession of that information It is an aspect the JSE's listing department may want to examine in some depth *David Gleason*

HEALTH (198 ~~185~~)

Hubble-bubble

FM 15/12/96

The tobacco industry suffered another blow last week when Health Ministers and officials from more than 30 Commonwealth countries agreed on action to reduce developing countries' dependence on tobacco production

The 11th Commonwealth Health Ministers' conference held in Somerset West adopted tough anti-smoking recommendations but stopped short of declaring tax increases and a total ban on advertising tobacco products

A spokesman for Health Minister Nkosazana Zuma said she endorsed all the recommendations and that SA would become involved in implementing them

He could not say what the nature of SA's involvement would be other than that it would depend on the availability of resources

He confirmed that Zuma believes government should increase its campaign against smoking but it has no immediate plans to ban tobacco advertising Her main aim is to stop children smoking

No additional antismoking measures will be introduced in SA until the effectiveness of the Department of Health's present rules on cigarette advertisements have been assessed

The conference found that educating people on the hazards of smoking could not compete with the tobacco industry's "very powerful" advertising machinery Instead, tobacco growing countries should be encouraged to produce alternative cash crops. It was recommended that redirecting government funds from promoting tobacco production towards financing crop substitution should be investigated

Commonwealth governments were asked to co-ordinate efforts to identify and establish other cash crops and develop markets for them The Commonwealth Secretariat was asked to establish a data base of agencies capable of providing technical assistance in crop substitutes and the development of alternative economic activity in tobacco-growing countries

The conference concluded it was a "double challenge" for tobacco-growing countries to prevent the development of serious tobacco use, with its resultant health costs, while also reducing economic dependence on tobacco

Some over-zealous delegates suggested that crop substitution could be encouraged by subsidising the revenue shortfall incurred by countries that switched from tobacco growing

Others questioned attempting to persuade some countries to stop growing tobacco while others were heavily subsidising its production.

The Zimbabwean and Malawian health ministers put forward a strong case for the tobacco producers

Studies by the Tobacco Growers' Association found that no other crop can compete with tobacco in reliability of earnings and its cash and employment generating potential.

In Zimbabwe, a hectare of tobacco was 22 times more profitable than cotton, 57 times more than that of maize and 59 times more than soya beans

"Tobacco has proved itself as an outstanding cash crop, particularly in developing countries, because it can be grown profitably in light soils in relatively low rainfall areas, it has a low weight, is easy to transport, it is not perishable and has a low volume to value ratio" ■

DANIEL PRINS, THYS VISSER, DILLIE MALHERBE & JAN DU PLESSIS

The university of Rembrandt

FM 22/12/95 (198)

The tobacco interests of the Stellenbosch-based Rembrandt Group (Remgro) and those of Richemont-controlled Rothmans International are worth more than R26bn So the proposed merger (*Fox* December 8) is a large deal by any standards and is certainly huge in the history of corporate SA

The transaction bears the stamp of Johann Rupert, Remgro chairman and MD of Compagnie Financière Richemont AG, the Swiss-based company he established seven years ago to house the offshore interests of the Rupert and Hertzog families.

Rupert is the public face in the continuing development and now internationalisation of Remgro and Richemont Behind him, though, is a team of high-level professionals who remain largely beyond the public eye.

Remgro does not court publicity It would not be fair to call the group secretive — disclosure and accessibility of its executives have improved over recent years — but it maintains a certain aloofness. This, together with the power wielded by the group, has earned Remgro the title of the Vatican of SA business.

That power emanates from the scenic winelands town of Stellenbosch, a corporate influence far out of proportion to its small size. It Is also a testimony to the University of Stellenbosch that — with only one exception — all of Remgro's executive directors are products of the university from the late Sixties to the Seventies

The exception is Daniel Prins, CE of Remgro's tobacco interests Apart from Rupert, Pretoria University graduate Prins is one of the key figures involved in the merger, together with Remgro MD Thys Visser, investments director Dillie Malherbe and, in London, Richemont and Rothmans financial director Jan du Plessis.

Before looking more closely at these four, it's worth noting a few other features of the Remgro board.

As can be expected in a family business, there is father-son succession

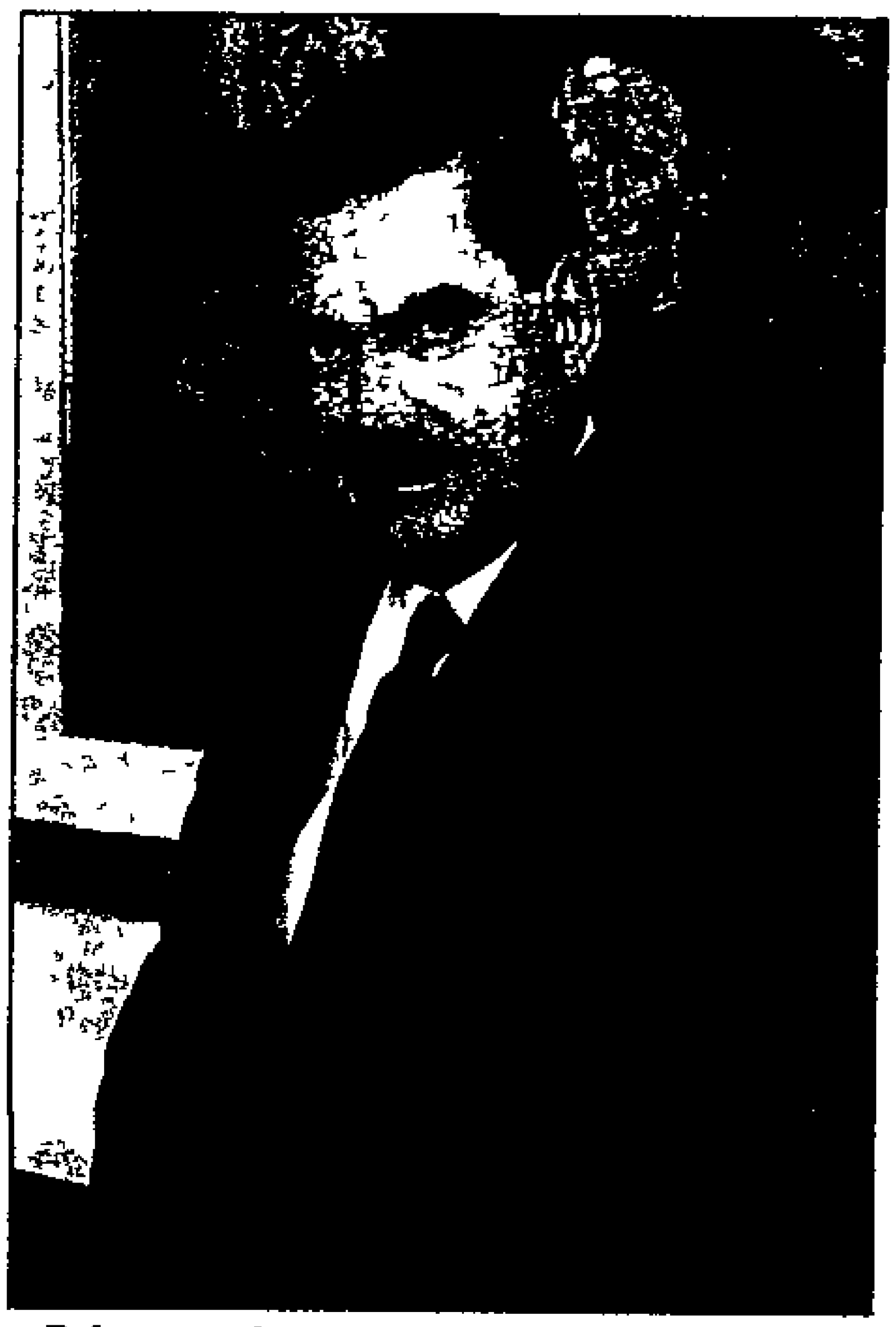
Johann Rupert, unlike many other sons of famous fathers, has successfully built up the empire founded by his father, Anton, when he acquired a small stake in Rothmans in 1955 Since succeeding his father as executive chairman of Remgro in 1993, the younger Rupert has bought outright control of Rothmans and, with the merger, will effectively diversify a large part of Remgro (tobacco accounts for about half of earnings) overseas

Then there is Edwin Hertzog, the son of the late Remgro co-founder Dirk Hertzog

Hertzog, a medical doctor from the University of Stellenbosch, is Remgro deputy chairman He serves on a number of boards but is probably most active as executive chairman of Remgro's 49% associate company Medi-Clinic.

Married to Elizabeth, the couple has two sons, Wilhelm and Ernst, and a daughter, Estelle

Malherbe ... *cut his teeth in merchant banking*



Prins .. *the only key figure who did not attend Stellenbosch University*

Hertzog's interests outside of work are reading, golf, exercise, water-skiing and wine tasting

A further family connection is between Willem Malherbe, the previous marketing director of Rembrandt who still serves on the board as a nonexecutive director, and his son, Dillie Malherbe

Another executive director is Denis Falck, group finance director appointed to the board in 1990

Like many of his colleagues on the board, Falck is a CA from the University of Stellenbosch He and his wife Sara have three daughters and a son And like many other Remgro directors, he plays golf but is also interested in hunting, hiking and rally driving

Gys Steyn oversees Remgro's extensive wine and spirits interests, which include Stellenbosch Farmers' Winery (30%) and Distillers (30%) He was company secretary for the Oude Meester Group from 1965 to 1969, becoming MD in 1970

In 1979 he became MD of Cape Wine & Distillers, serving in that position until 1988 when he became an executive director of Remgro.

After matriculating from Caledon High School, Steyn went to the University of Stellenbosch, graduating with a BCom LLB

Theo van Wyk joined Inland Revenue after graduating from Stellenbosch with a BCom LLB

He was admitted as an advocate in 1970 and joined Unisa in 1974 as a senior lecturer in mercantile law, ultimately chairing the department In 1985 he was appointed professor of mercantile law at Stellenbosch, a position he held until 1987 during which time he also served as a member of the Margo Tax Commission

Thereafter, Van Wyk was Registrar of Financial Institutions, serving on a number of related bodies, and became an executive director of Remgro in 1990

Van Wyk is married to Christa and they have four children

There are five nonexecutive directors, two representing important Remgro investments

These are Doug de Jager, executive chairman of Lenco, who was appointed to the Remgro board in 1993, and Neil Morris, MD of Remgro subsidiary Huntcor

Morris has been on the board since 1990

Apart from Willem Malherbe, other nonexecutive directors are Thys Roux and F W van Zyl, both former executives with more than 40 years' service to the group

Remgro MD Visser and Prins headed the merger negotiations on the Remgro side.

Visser, also a CA from Stellenbosch, joined Remgro in 1980, initially on the liquor retailing side (he became MD in 1992)

He went to school in Port Elizabeth, matriculating from Pearson High School before moving to the University of Stellenbosch.

Visser began his career with Arthur Young & Co in Cape Town He completed his articles and was then employed as a computer audit specialist before he joined Remgro in 1980

Visser held a number of key positions before being appointed MD, including financial director of Western Province Cellars, financial manager and later group investment manager of Remgro. He now sits on the boards of Gencor, Lenco, Engen and Sappi.

Visser. *headed the merger negotiations on the Remgro side*

Visser says Remgro will have board representation on Rothmans, though details depend on shareholder meetings to be held early next year.

Remgro will have at least one seat on the Rothmans International board and the representative is likely to be Visser

Prins, acknowledged as one of the world's leading tobacco men, will head an enlarged Rothmans geographical unit.

"Like most other international tobacco companies, Rothmans is organised along regional lines," says Prins "Group strategy is decided at the centre but the operations are controlled by regional CEs"

The same will apply to the former Remgro tobacco interests when they become part of the larger Rothmans International network.

Prins has a long history with Remgro's tobacco interests and is no stranger to Rothmans, having been sent over to London in July 1990 as part of a team to undertake a strategic review of the tobacco business That resulted in the restructure of Richemont's interests into two separate businesses, tobacco and luxury goods.

Initially part of Richemont's London office, Prins was asked to join Rothmans International tobacco interests as finance director in January 1991, a position he held until the start of 1994 when he was appointed CE of Remgro's tobacco operations and returned to Stellenbosch.

Prins now oversees all southern African tobacco operations south of the equator When the merger is finalised, he will probably head what will effectively be Rothmans International's interests in the same markets — with the added scope of increased production for the region from SA's cost-effective plants

After graduating from the University of Pretoria, Prins started working for accounting firm Van Sittert Leask & Rheeder as audit manager

He earned his stripes with the tobacco division at Remgro by heading a far-reaching internal restructure The experience came in handy when he was sent to London to assist in the restructure of Rothmans

The role of Dillie Malherbe, Remgro's investments director, leans more towards corporate finance, probably a heritage of his days as GM of Rand Merchant Bank's corporate finance department

Malherbe joined RMB in 1985 when Rupert (who formed the merchant bank in 1979) merged interests with Rand Consolidated Investments.

Rand Consolidated Investments was founded by present RMB Holdings chairman G T Ferreira, Paul Harris and Pat Goss It should probably come as no surprise that all three are also graduates of the university of Stellenbosch

Other prominent businessmen who came out of Stellenbosch during that era include Christo Wiese, who chairs Pepkor and Boland Bank, Whitey Basson, CE of Shoprite and Checkers, and Michiel le Roux, former MD of Distillers and who now runs Boland Bank

There is also the son of former State President Jim Fouche, Jimmy Fouche, who is also in the Pepkor stable His brother, Koos Fouche, is a senior executive with Remgro

In 1990 Malherbe joined Remgro He was involved in determining relative values for the Remgro/Rothmans merger, on the Remgro side, though both parties were assisted by independent merchant banks and financial advisers

Antitrust litigation

Born in Sydney, Australia, Malherbe was educated in Stellenbosch at the Paul Roos Gimnasium. He is married to Henriette and has two children, Nina and Willem

The Rothmans counterpart in London was Jan du Plessis, financial director of Rothmans and Richemont and a member of the executive committees of Richemont AG and Richemont SA.

Together with Johann Rupert, he is the only other South African serving as an executive director on the board of Compagnie Financière Richemont AG.

He joined Remgro in 1981 with an LLB from Stellenbosch and a CA Towards the end of 1981 Remgro sold half of Rothmans to Philip Morris, a deal which subsequently involved reams of antitrust litigation

Du Plessis. *his legal background took him to London*

With his legal background, Du Plessis was sent to London Apart from 18 months which he spent back in the Cape between 1984-1986, he has remained overseas for Richemont, working in London and at the group's head office in Zug, Switzerland

Visser says Remgro has a small corporate structure Apart from the tobacco side of the business, there is little in the way of line functions — though Remgro has a certain amount of management control with some of its investments.

Malherbe, looking back to the days when he was at university with some of the men who are now directors of Rembrandt, says talk was not of building business empires in the future.

"I suppose we were just regular students. Some of us worked harder, some played harder In the end, though, we realised we had to get serious about what we were going to do"

Shaun Harris

MANUFACTURING – TOBACCO

1996 ~~1997~~

Smoke signals new round in ad war

AUG 13/1/96

(198)

■ Any government moves to impose further restrictions on tobacco advertising will have advertisers fuming.

ICHAEL MORRIS
iff Reporter

)VERTISING and tobacco industry strate-
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"We have to decide whether it is the best way, or
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she said.

In the meantime, further (unspecified) anti-smoking measures were in the pipeline.

As parliament prepares for its next stint of law-making, a close watch will be kept on possible moves to limit, restrict or ban advertisements promoting products which are legal — such as tobacco, liquor and even some medicines — but which have drawn critical attention from lobbyists.

One of the foremost critics of the ban-the-ads lobby is Johanna McDowell, vice-president of the International Advertising Association's South African chapter.

"While the tobacco issue is a very emotional one and causes great debate, the IAA is firmly committed to freedom of commercial speech and freedom of consumer choice."

The IAA also stood firm on the issue that "if it is legal to manufacture and distribute a product, then it is legal to advertise it"

Ms McDowell cites the recent Canadian Supreme Court case in which the judge "stated that there was no direct evidence of a scientific nature showing a causal link between advertising bans and a decrease in tobacco consumption".

More significantly, perhaps, the court "went on to comment that freedom of expression, even commercial expression, was an important and fundamental tenet of a democratic society"

"The IAA fully supports that belief," she said.

This month, in fact, the IAA is convening a special meeting to discuss not only tobacco advertising, but the possible effects of legislation generally on advertising.

"This could have an impact on medical and liquor advertising too — we suspect these industries could also be in line for restrictions of one kind or another," says Ms McDowell.

She points out that the IAA's position is that with freedom of commercial expression, comes the requirement for self-regulation.

"It is the obligation of the advertising industry to provide responsible restraint at every level."

The Tobacco Institute of South Africa argues that cigarette advertising is geared to promoting specific brands, persuading existing smokers to support a different brand, or discourage them from changing brands.

And it insists that studies — comparing countries where tobacco advertising is banned with those where it is not — show "there is no significant relationship between the extent of cigarette advertising and total cigarette consumption".

Encouraged by the Canadian decision, the institute says it "expects this decision to have a significant effect on the decisions of authorities worldwide — including in South Africa — on proposed advertising prohibitions".

"The verdict confirms the view of the Institute that the manufacturers of a legal product have the fundamental right to communicate with their customers."

N BOARD

Ball in Zuma's court after court's nod for tobacco advertising

(198) Star 13/1/96

OWN CORRESPONDENT

Cape Town – Advertising and tobacco industry strategists, armed with a landmark Canadian Supreme Court decision favouring tobacco advertising, will be watching Health Minister Nkosazana Zuma like a hawk this year after her threat to consider more restrictions.

As the worldwide row on whether cigarette advertising really does promote smoking fumes on, the tobacco industry has in the Canadian decision a purely constitutional weapon to fight off a ban. And it has the support of the advertising industry.

Dr Zuma is among SA's most vociferous anti-smoking lobbyists and a keen advocate of further measures to turn the country into a smoke-free zone.

She is widely supported by other lobbying groups as well as civic authorities such as the Cape Town City Council.

Her most recent comments make it clear she favours tougher action on smoking. Speaking at a Commonwealth health ministers' summit last month, she said that while no firm decision had been taken on banning tobacco advertising, it was something that had to be considered. "We have to decide whether it is the best way, or whether we can ban certain forms of advertising," she said. In the meantime, further (unspecified) anti-smoking measures were in the pipeline.

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ST 14/1/96

Plan to stub out smoking 'pimps'

By LINDA RULASHE

198

HEALTH authorities are gearing up for a fresh onslaught against tobacco companies, including those involved in sports sponsorship.

Anti-smoking lobbyists have complained that sports sponsorship allows tobacco companies to indirectly advertise their products without health warnings

Vincent Hlongwane, media liaison officer for the Department of Health, said the department was going to act against companies taking advantage of loopholes in the Tobacco Products Control Act

Bernard Hellburg of Pretoria has complained to the police that the Benson and Hedges trademark on the cricket pitch at Springbok Park during Thursday's match between South Africa and England in Bloemfontein carried no health warning

While Benson and Hedges is virtually synonymous with limited-overs cricket, Rothmans is well known for its sponsorship of motor racing, the Cape-to-Rio yacht race and the July Handicap horse race

Other sports sponsorships include Gunston in surfing and Dunhill and Lexington in golf.

Cricket will cut its links with the cigarette manufacturer at the end of the season, and will begin a five-year association with a major bank.

Dr Yussuf Saloojee, the executive director of the National Council Against Smoking, compared the tobacco company's sport sponsorship to a "pimp which procures new customers".

The Advertising Standards Authority, however, maintains that sponsorship is not advertising

Rembrandt shareholders approve tobacco-interests merger

By Audrey d'Angelo

Cape Town — Shareholders approved the merger between Rembrandt and Richemont's tobacco interests in Stellenbosch on Friday, creating the fourth largest tobacco group in the world.

The new group, Rothmans International Holdings, will have combined annual net sales of about R17,3 billion and operating income amounting to about R4 billion.

Remgro will own one third of the merged group and Richemont two-thirds. Remgro's tobacco interests before the merger were valued at R8,6 billion and Richemont's at R17,3 billion.

Rembrandt group chairman Johann Rupert told shareholders that reaching agreement on Remgro's one-third interest had been the toughest fight he could remember.

Anton Rupert, the founder and former chairman of the Rembrandt group, said business had become a global village in which size was important for marketing, purchasing and meeting competition.

He said that although Richemont had been formed by hiving off the Rembrandt group's international interests in the 1980s, the new merger was not reversing the clock in response to South Africa's acceptance by the rest of the world.

He said that the merger did not include Richemont's luxury goods interests and that Richemont's tobacco interests were now far greater than at the time of the split.

Although Richemont had cigarette factories in countries where labour costs were low — in the Far East, as well as in Australia and New Zealand — there was no danger that Remgro factories would be transferred to lower wage areas, Anton Rupert said.

The merger would unify two businesses with a common heritage and common tobacco trademarks such as Rothmans, Peter Stuyvesant and Dunhill, strengthen the group's worldwide competitive position and ensure that it became the leading tobacco business in Africa.

Stockbroker David Sylvester of the Cape Town office of Frankel Pollak Vinderine said Remgro had now again become a rand-hedge stock. Its share price had raced ahead to R38 a share on news of the proposed merger

(198) CT (BR) 15/11/96

Tobacco merger the way to international opportunities

BD 18/1/96 (198)

Samantha Sharpe

CAPE TOWN — The Rembrandt group's recent merger of its tobacco interests with those of Swiss-based Richemont could see the group blazing an expansion trail into Asia and Eastern Europe

The deal brought the groups' tobacco interests together into a R26bn international company under Amsterdam-based Rothmans International, Richemont's tobacco venture.

Rembrandt group communications manager Hans Knoetze said yesterday that the merger, which had created the fourth largest international tobacco company, would clearly provide good opportunities for Rembrandt's international expansion

Increased competitiveness in southern Africa could now be countered by a movement into new markets, he said

But the new international group, in which Rembrandt had a one-third stake, had yet to spell out its strategy in terms of growth into developing markets

Any stated prospects would have to come from its two-thirds stakeholder Richemont, he said.

In a circular to shareholders, Rembrandt said the merger was the most advantageous route by which it could expand its tobacco business internationally

It provided a unique opportunity for the group to acquire a significant shareholding in a successful international group, which opened up opportunities in developing markets including Asia and Eastern Europe

Rembrandt said the deal would strengthen the merged company's worldwide competitive position, making it well-placed to participate in any potential industry consolidation.

It would also create the leading tobacco business on the African continent, which had considerable potential for long-term growth

"Over the longer term it is envisaged that operational synergies between the tobacco interests of Rembrandt and Richemont may be realisable — especially through the possible utilisation of Remgro Tobacco's low cost production facility. The attainability of synergies will be further researched following the implementation of the merger."

Rembrandt's share price gained 25c yesterday to a fresh annual high of R38,75 — a R3,75 gain since the start of January This is substantially higher than its R24,25 low in June, and its R33 close on November 30 when the deal was first made public.

Deal set to boost breweries' earnings

BD 18/1/96

Patrick Wadula

NATIONAL Sorghum Breweries' planned R70m deal with India's United Breweries (UB) would lift earnings by 17c a share in the year to December 1996, the group said.

The group, which sustained a 63c share loss for the six months to December 1994, said the deal would cut debt owed to Nedbank, Absa and NBS

In the brewery's latest annual report executive chairman and CEO Mohale Mahanyele said the debt would be converted into an equity instrument priced at not less than R3,71 a share — the price United Breweries will pay for group shares The conversion date would be 3-5 years

In effect, the banks would at the end of five years be able to "put" these convertible instruments to United Breweries which would be able to call on these instruments from the third year

The deal gives United Breweries 30% of the group, with an option to lift to 50% The group's interest-bearing debt amounted to R156,7m (R118,4m), against shareholders' funds of R139,5m (R177,3m).

The company posted a R27,1m loss before tax and extraordinary items, due to a dismal performance from Vivo Africa Breweries, which turned in a R22,7m loss. Other divisions which incurred losses were Jabula Foods (R7,5m) and Africa Breweries Corporation (R1,3m)

The sorghum beer division achieved income of R4,3m The report was signed off in August last year. The group has yet to release its December 1995 figures. Mahanyele said yesterday that the company would concentrate on consolidating the deal with United Breweries and on seeking Vivo's recovery

He said he hoped the deal with United Breweries would be finalised by the end of February following the approval of the SA and Indian central banks

Group executive director Israel Skosana said the company was still hoping to recover the R10m it had invested in Crusader Life, and planned to use it to capitalise Vivo Breweries

EXECUTIVE SUITE

SA doctors support US tobacco war

(235) (198)

BY CATO PEDDER

CT (MR) 23/1/96

Johannesburg — The Food and Drug Administration in the United States, which wants tobacco declared a drug, has received support from the Medical Association of South Africa (Masa)

President Clinton's administration is embroiled in a row with American tobacco companies

Dr Edoo Barker, the chairman of the science and education committee of Masa, said yesterday that the institution fully supported moves in the United States to declare tobacco a drug

"It has been unequivocally proven that tobacco, besides being addictive, causes damage to the health of smokers and those in their environment"

Masa, along with Dr Yusuf Saloojee of the National Council Against Smoking, would like to see a complete ban on tobacco advertising

At the recent conference of the Organisation of International Doctors against Tobacco in Stockholm, it was agreed that the most urgent task facing doctors was to reduce the incidence of first-time smoking among children and teenagers

No national survey has been taken of the incidence of smoking among children in South Africa, but smaller studies show almost the same proportion of children smoke as adults Most smokers begin before they are 16

In a survey of township primary schools in Cape Town, it was found that 46 percent of primary school boys smoke compared with 50 percent of adult African males

A spokesman for United Tobacco said that its advertising was not directed towards children

He said that the company adhered to a voluntary advertising code and did not portray children younger than 18 in its advertisements

LIGHT UP *The Medical Association of South Africa supports moves in the United States to have tobacco declared a drug and would like to see a complete ban on tobacco advertising in South Africa*

Masa takes issue with claims that tobacco advertising does not induce first-time smoking among non-smokers, especially young people

Saloojee believes that advertisements in places such as sports grounds makes them attractive to children by signifying excitement and drama

He also says that the tax on South African cigarettes is low compared with other countries In South Africa the tax on a box of cigarettes is 35 percent to 38 percent of the retail price In Europe and Britain the average is 76 percent tax

The department of health is believed to have a fairly positive attitude towards a complete ban on tobacco advertising, but this could not be verified as it was unavailable for comment

Rembrandt dividends come out 'smoking'

(198)

ARG: 10/2/96

ALIDE DASNOIS
Business Editor

DIVIDEND hikes announced yesterday by the Rembrandt Group are an indication of good results in the current financial year, say analysts

ING Barings' Johan Snyman said the pay-outs were slightly higher than expected and suggested profits for the year would be up between 28 percent and 30 percent on last year's figures

The benefits of the merging of Rembrandt and Richemont tobacco interests would not materialise until later this year, he said, so the profit improvement would be from domestic operations

"Dividend cover, which was as high as five in 1990-91 is probably down to about 4,2," he estimated.

David Sylvester of Frankel Pollak Vinderine said he expected results for the year to March — to be announced in mid-June — to show profit growth of 25 percent.

A Rembrandt spokesman would not comment yesterday

In the six months ended September, Remgro's profits before exceptional items rose 31 percent.

■ Final dividends announced yesterday were Remgro, 37,95c (30,36c last year), Rembrandt Controlling Investments, 28,10c (22,48c), Technical Investment Corporation, 24,66c (19,73c), Technical and Industrial Investments 26,14c (20,92c last year).

Tobacco profits may go up in smoke

(198) M+G (BM) 16-22/2/96

New allegations against the tobacco industry look set to make it all the way to the US Supreme Court, reports Mark Tran

THE tobacco industry has never paid a penny in damages to smokers, but that record is in jeopardy amid accumulating evidence that cigarette companies dissembled on the addictive power of nicotine and new legal moves by opponents

The industry's only brush with defeat came when a court awarded $400 000 to the relatives of a New Jersey woman, Rose Cippollone, until the decision was overturned on appeal

The basic argument deployed by tobacco companies — that smokers enjoy cigarettes at their own risk — has always triumphed But that contention looks vulnerable after allegations by Jeffrey Wigand, former vice-president for research and development with Brown and Williamson (B & W), a subsidiary of BAT in the United States

Most Wall Street analysts believe the tobacco industry will wriggle free once more, but some are less certain. Diana Temple of Salomon Brothers believes that a huge smokers' class action suit in New Orleans could make it all the way to the Supreme Court.

While this and other lawsuits are unlikely to affect tobacco company profits, she asserts that they will have a psychological effect, driving share prices down

Smoking imposes little extra cost on local governments and may even save states money when sick people die young

Even before any trial, Wigand has furnished devastating testimony against the tobacco industry

In a CBS prime-time *60 Minutes* programme, he alleged that tobacco companies covered up evidence that nicotine is addictive, that they manipulated the level of nicotine in cigarettes and that tobacco executives lied under oath about these matters before Congress

The programme appeared after the *Wall Street Journal* published an article on Wigand's deposition in Mississippi, which is suing tobacco companies to recoup millions of dollars spent treating smoking-related illnesses

Tobacco companies are marshalling arguments to counter that of "unjust enrichment", being used by Richard Scruggs in a Mississippi case

A veteran of the asbestos wars that led to the bankruptcy of Johns Manville, Scruggs is using money he made then to take on tobacco. The Mississippi suit does not focus on allegations of wrong doing but on the general theme of justice and equity. The suit, filed by a group of lawyers brought together by Mississippi attorney general Mike Moore, seeks damages of $200-million on behalf of the state — to cover the expenses Mississippi is said to have incurred to care for poor people with tobacco-related illnesses

Even if they lose, the tobacco companies are unlikely to sink into bankruptcy, but they will be obliged to bear a greater percentage of the costs picked up by taxpayers.

In their defence, they argue that states are already compensated for smokers' health by the revenue from hefty excise taxes, that smoking imposes little extra cost on local governments and may even save states money when sick people die young, and that health costs cannot fairly be separated from tobacco's overall contribution to the economy

But a report in late January by the Centres for Disease Control in Atlanta found that the direct medical costs of smoking in the US came to $50-billion a year — more than double the $21-billion revenue from tobacco agriculture and manufacturing.

A forthcoming study by two University of Michigan professors is expected to conclude that tobacco accounts for a net economic loss in all but six big tobacco-growing states, and that states would gain substantially if people spent their cigarette money on anything but tobacco

In fact, the tobacco industry is in decline, with employment in tobacco farming and manufacturing down.

For now, however, tobacco companies continue to rake in profits. RJR Nabisco is under siege from corporate raiders Carl Icahn and Bennett LeBow LeBow, owner of Liggett tobacco, wants the company to spin off its food unit and merge the RJ Reynolds tobacco group with Liggett.

Nabisco argues that a spin-off would trigger lawsuits by anti-tobacco plaintiffs who could claim that the company was trying to shelter its tobacco assets under the food unit. But that contradicts RJR Nabisco's earlier argument that litigation against the tobacco industry is unlikely to succeed

The confusion is a fair sign of the company's nervousness.

Rembrandt feels heat of tobacco controls

BD 22/2/96 (198)

Samantha Sharpe

CAPE TOWN — Rembrandt's plans to use the critical mass formed with the recent merger of its tobacco interests with Richemont to expand internationally raises a key question at home How welcome is Rembrandt in the new SA?

The group has already fallen foul of new government regulations stipulating that its brands carry health warnings

Implementing the regulations cost Rembrandt a R47m one-off charge in its 1995 financial year, and the normally sanguine group felt obliged to loudly bemoan the new requirements.

Rembrandt is not alone in feeling the heat from the governments of countries that know the risks of smoking So the international drive by tobacco purveyors is into so-called developing countries, which have still to make a big deal about the health risk to its citizens

In its latest circular to shareholders setting out the nature of the merger for shareholder approval, the group said the deal would allow the group to "gain exposure to, and participate in pursuing new opportunities in developing markets such as Asia and Eastern Europe".

More than two-thirds of the world's tobacco is grown in developing countries to satisfy a global craving that the UN's Food and Agricultural Organisation predicts will grow at an average annual rate of 1,9% until the year 2000.

The industry justifies its relationship with developing tobacco producers by pointing to the countries' dependence on the trade as a source of foreign exchange and contributor to economic development.

The Tobacco Institute of Southern Africa says the tobacco industry in this country is integral to the total agricultural sector, consisting of about 860 tobacco growers that provide jobs for about 53 000 people.

The industry also contributes a hefty chunk to state coffers, not through VAT and revenue taxes only, but also through the excise duties applied by government to tobacco products

According to the institute: "More than 63 000 retailers and 460 wholesalers in SA are dependent to a greater or lesser degree for their existence on the sale of tobacco products

"The total capital invested by the various parties with an interest in the industry, as well as the enormous benefits which other sectors draw from their intermediate inputs, should be seen as a multiplier effect in industry as well as for the national economy."

Latest International Tobacco Growers' Association figures show that worldwide the tobacco industry employs about 33-million people in tobacco growing, 90% of which are to be found in developing countries

The association says the anti-smoking agenda of the World Health Organisation is set by the developed countries which largely finance the organisation

"It is for this reason that the developing world, in this instance, the tobacco-producing countries in central and southern Africa, are being asked to cripple or damage their economies in order to enhance health interests perceived by the developed countries," it says.

Damage to the tobacco industry could bring about further demands on already burdened health services through starvation or malnutrition, the association warns.

The question, the association says, is whether developing countries that are currently contributing to their own economic stability and development programmes through the international trade in tobacco should "retain this dignity".

Or is their indebtedness to the First World to be further extended?

The price for this "dignity", however, is that per capita tobacco consumption is rising in developed countries, and is expected to increase 12% between 1990 and 2000, according to World Bank figures.

Recent health reports also show a definite relationship between tobacco consumption and economic welfare

The Cancer Association of SA says studies shows smoking rates decline with higher incomes and that a considerably lower proportion of smokers exist among people with tertiary education

This means that developing countries are ideal marketing targets for the tobacco industry and for companies like the one born of the Rembrandt Richemont merger.

The deal consolidates Rembrandt's SA and southern African tobacco business with Amsterdam-based Rothmans International — Richemont's tobacco venture — and promises good business for both parties.

Rembrandt has a one-third stake in the unlisted R26bn company and cannot but support the economic argument for the tobacco industry in the Third World.

The World Bank, meanwhile, says in a recent world development report that the net effect on global welfare of investing in tobacco is "emphatically negative".

COMPANIES

Utico hit by cost of health warnings

Jacqueline Zaina (198) BD 23/2/96

TOBACCO group Utico Holdings' attributable income fell 32,4% to R15,8m for the year to December, as hefty trading gains were wiped out by costs of implementing the new health warning regulations and lower interest income.

Share earnings were 261c (386c), while the dividend fell to 67c (68c)

The results are not strictly comparable, as last year's figures included trading from Willards which was sold to National Brands in 1994.

Stripping out Willards' contribution in 1994, the group lifted turnover 7,4% to R371,5m while operating income more than doubled to R27,7m due to productivity and cost improvements

But Utico said any economic growth that might have stimulated the market had been throttled by higher excise duties and the cost of health warnings The group took a one-off R10,7m charge to cover the costs of implementing health warnings.

Interest income fell to R8,7m from R25,7m as cash resources, swollen last year by the Willards sale, fell to R23,8m from R402,3m.

Utico attributed the fall to last year's special R52 share dividend following the sale, and the secondary tax on the payout

UK-based tobacco company enters SA market

(198) CT (BR) 1/3/96

STAFF WRITER

Johannesburg — Imperial Tobacco, the British-based tobacco company, has entered the South African market with the launch of Superkings, its most popular brand worldwide.

The company has hinted it might set up manufacturing operations in South Africa. That could challenge the Rembrandt group's dominance

Imperial sells 20 brands in 70 countries, with sales of 35 billion cigarettes generating R20 billion a year

Though some Imperial brands had been seen in South Africa, this was Imperial's first direct involvement in the local market, said Robert Gledhill, the general manager of Imperial's South African operation

He said the domestic market in Britain was mature, so Imperial was investing considerable resources in operations worldwide

It saw South Africa as a major opportunity, "particularly since it is predominantly a Virginia tobacco market, which is where Imperial's expertise lies"

BrandAdd, an all-South African marketing, sales and distribution joint venture, has been established in Bryanston, Johannesburg

Gledhill said the company would use South Africa as a springboard into neighbouring countries

'Sinfuls' punished by excise duties

BD 14/3/96 (198)

Linda Ensor and Jackie Zaina

CAPE TOWN — The finance minister showed little difficulty yesterday in smacking the sinful, hitting tobacco and alcohol users.

Excise duties on cigarettes rose 18%, pushing the retail price of cigarettes up 16c on a packet of 20 and bringing in an additional revenue of R220m.

The increase brings the excise duty to about 34% (42% including VAT) of the retail selling prices.

Duties on beer (excluding sorghum) rise by 6,5c a litre, or 2c a 340ml can, translating into an estimated 1% rise in the retail price. This would bring an additional R185m to state coffers.

Cider drinkers, who government said had escaped rates applicable to other alcohol-based products in recent years, will have to swallow a 20% duty increase to 8c/l (3c per 340ml can) or a 1% increase in the retail price.

Unfortified wine was hit with an 18% rise in excise duty to 6,5c a litre (about 4c a 750ml bottle), giving an estimated 0,4% rise in retail prices. A duty hike of 8c a litre (6c a bottle) was slapped on fortified wines.

Duties on sparkling wines rise 11c a litre (8c a 750ml bottle) with those on cane spirits rising 208,20c a litre (about 67c a bottle) and grain spirits 212,71c a litre (69c a bottle). The retail price of all spirits, including wine spirits, was likely to rise by 3%.

The Tobacco Board deplored the rise as unreasonable, as the industry already contributed more than R2bn to the state treasury in excise duty and VAT.

Board chairman Wrensch Louw said government should be wary of wringing the neck of the goose that laid the golden eggs.

Utico group financial director Seville Chonin said the group was disappointed and that higher excise duties would fuel inflation and exacerbate smuggling.

But the National Council Against Smoking said cigarettes were now 21% cheaper in real terms than they had been in 1970, with excise duties having fallen 32% since 1981/82.

SA Breweries said the 7,7% increase in the excise on beer was in line with expectations. Beer division MD Norman Adami said beer continued to be discriminated against in comparison to wines, ciders and spirits.

1996 BUDGET Tobacco tax will contribute only R220-million annually to state coffers

Tobacco production: Africa has the lowest rate of cigarette consumption in the world and represents a huge growth market PHOTO KEN OOSTERBROEK

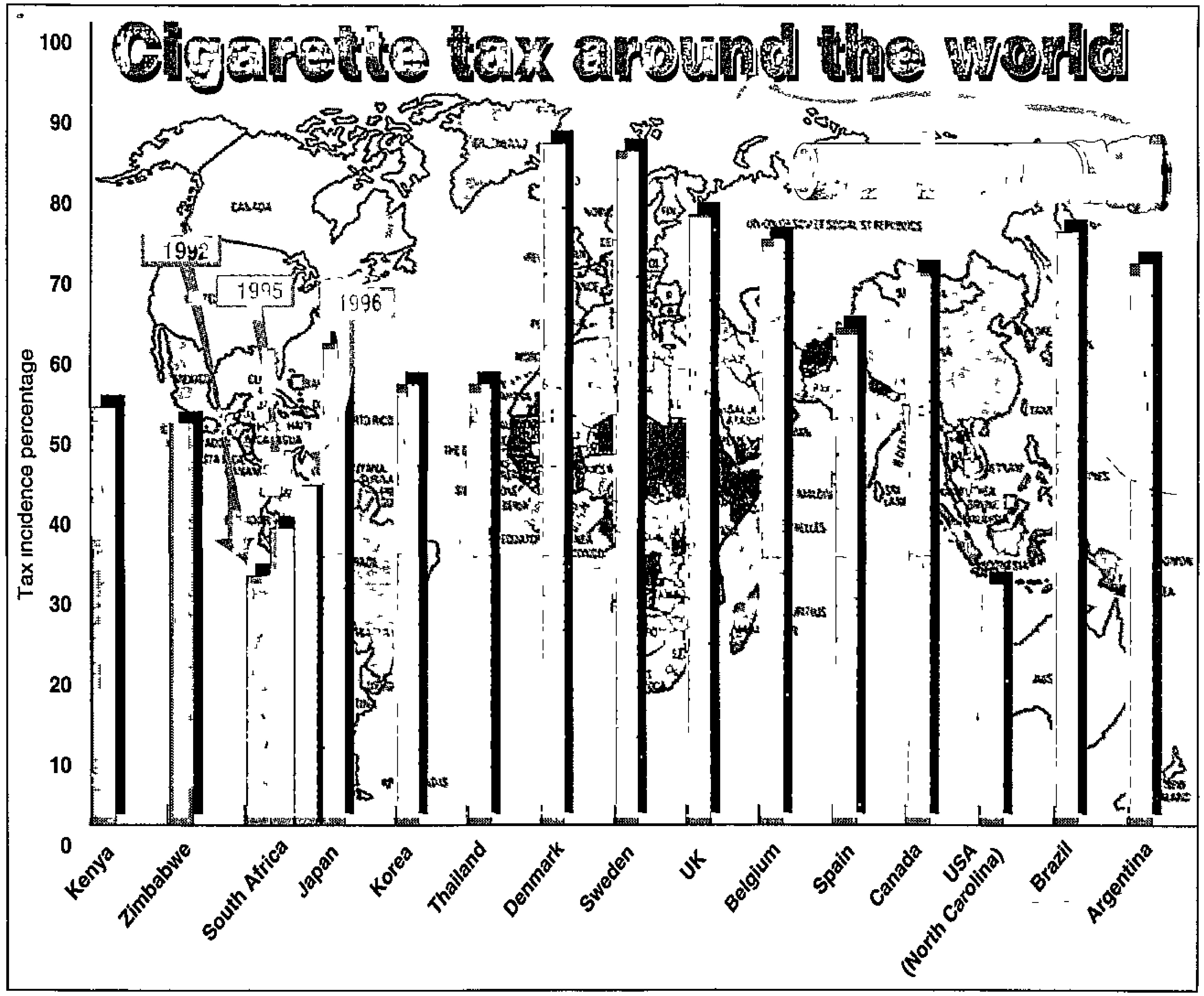
Tobacco tax lights up a fire

(198)

M+G (RBM) 15-21/3/96

The 18% excise duty increase on cigarettes displeases both anti-smoking lobbyists and the tobacco industry, reports Karen

has enabled manufacturers to reduce the real price of cigarettes Cigarettes are 21% cheaper today than they were in 1970 "As a result, tobacco consumption has increased at an annu



Smokin': South Africa still has one of the lowest tax rates in the world GRAPHIC VAL SING

ANTI-SMOKING lobbyists are disappointed at the 18% increase in the excise tax on cigarettes announced in the Budget on Wednesday.

Total tax on cigarettes (including value-added tax) now comprises about 42% of the selling price compared to 37% last year and, in effect, pushes the retail price of cigarettes up by only 4%.

"This puny increase in tobacco tax cannot be justified in either fiscal or health terms," says executive director Yussuf Saloojee of the National Council Against Smoking

He says this will contribute a mere R220-million a year to the state's coffers, whereas, "if the Minister of Finance had heeded our call to increase the excise tax by 100%, R1-billion would have gone to the state"

Saloojee reports that the price of tobacco is the single largest factor determining short-term patterns of use "so when the price goes up, consumption falls and when price goes down, consumption rises"

Over the past 25 years, excise duties on tobacco, after adjusting for inflation, have dwindled from more than R1-billion in the early 1970s to less than R750-million in the 1990s. Saloojee finds it strange that at a time when health care costs associated with smoking are rising, real government revenue from the tobacco industry is declining.

'This puny increase in tobacco tax cannot be justified in either fiscal or health terms'

"In 1972, 70% of the price of a packet of cigarettes was excise tax — by 1990, that had declined to a mere 23% of the price," says Saloojee.

But in the last three years, government has got tougher on the tobacco industry, raising excise taxes way above the inflation rate.

Despite these increases, however, South Africa still has one of the lowest tax rates in the world. South Africa's total tax on cigarettes is 42% of the retail price (37% in 1995), against 60% in Japan, 74% in Brazil, and 76% in the United Kingdom

Saloojee adds that the sharp decrease in excise taxes since 1970

So how much do South Africans smoke? Saloojee estimates about 35-billion cigarettes were consumed in 1994/95, a figure which has been in a slight decline for the past few years, owing to the downturn in the economy.

"There's a close correlation between increase in income and increase in consumption."

But it seems Finance Minister Chris Liebenberg has equally displeased the tobacco industry. Says United Tobacco Corporation corporate affairs manager Hilary Thomson: "We're disappointed at the high increase in excise duty ... it has gone up way in excess of inflation over the past three years "

She adds that international experience indicates that as excise rates increase, so does smuggling. "In South Africa, this is exacerbated by a manpower shortage in the Department of Customs and Excise, which prevents them from effectively policing borders and ports of entry "

Executive chairman of R&R Tobacco Daan Prins concurs, adding that smuggling is already prevalent "I'm also concerned that there appears to be no correlation between the increase and the inflation rate "

Saloojee is dismissive of the tobacco industry's fears about smuggling, adding "it should not be a barrier to healthy public policy"

He states that controlling smuggling in South Africa should be even easier now, because of the distinctive health warnings which appear on local packaging

R&R Tobacco (formerly Rembrandt) dominates the South African market, supplying more than 80%, while United Tobacco Corporation is the second biggest player Imported cigarettes account for a mere 3%

With the arrival of British company Imperial Tobacco Limited into South Africa, Saloojee reckons other companies may be looking to South Africa as a springboard into the rest of Africa.

Africa has the lowest rate of cigarette consumption worldwide and represents a huge growth market, but with high risk. Instead, international tobacco giants are targeting markets in China, Eastern Europe and South East Asia.

(198)

Tobacco group's legal battle has wide implication

(198) ARG 16/3/96

WASHINGTON — One day, as historians survey the Great Tobacco Wars that raged across America for most of the second half of the 20th century and into the following millennium, March 13, 1996, may prove to be the decisive turning point

For on that day the Liggett Group, smallest of the country's five main cigarette manufacturers, struck a landmark deal in the largest of the class action suits brought on behalf of aggrieved smokers against the companies

The annual payment involved is puny, just $2m (R8 million), or three hours worth of profits for the $45 billion US tobacco industry But a Rubicon has been crossed.

In America, the most litigious country on earth, lawsuits beget lawsuits. Hitherto the greatest psychological bulwark for the companies was their boast that in decades of litigation — in which they had been accused of everything from making people addicted to their product to killing them — they had paid not a single cent in damages Hundreds of millions of dollars in legal defence costs, millions of words of obfuscation, evasion, half-truth and denial — yes. But never had a plaintiff actually won.

That absolute no longer holds Small in itself, Liggett's surrender means Big Tobacco is no longer invincible.

Its champions, of course, hold otherwise. Even though the settlement formula would imply a pre-tax cost to the industry of $800m (R3,2 billion) annually, analysts insist the risk of massive legal payments has long since been factored into share prices Take, for example, Philip Morris, the largest, richest and most intransigent of the companies, which accounts for half the US cigarette market; its shares might be worth $150 (R600) today instead of around $100 (R400), were Mars Bars or Big Macs, not Marlboros, its flagship product.

"We intend to fight and win all of the cases in which we are involved," was the company's predictably dismissive reaction to Liggett's white flag, as it damned a settlement "so full of holes that it won't affect our approach to litigation" And the arithmetic of that defiance is crystal clear. Under the proposed settlement, Liggett's agreement to pay out $2m is a far better bargain than the $10m (R40 million) it currently shells out annually in legal fees If Philip Morris accepted similar terms, it would be liable for $440m (R1,2 billion) a year, or 12 percent of its 1995 pre-tax domestic tobacco business profit of $3,7bn

Then again, as analysts further point out, the behaviour of Bennett LeBow, chairman of Liggett's parent Brooke Group and the prime architect of the deal, is not unalloyed Mr LeBow has designs on RJR Nabisco, the second-biggest tobacco company, in which he is a dissident shareholder The Liggett deal has been tailored to help him persuade RJR's stockholders to dismiss the current board, approve a merger with Liggett, and split RJR-Nabisco's food and tobacco operations into independent entities. All of which, of course, would suit Mr LeBow mightily

But even Philip Morris cannot discount the longer-term impact of what he has done The monolithic facade of unity of the companies has been splintered With Liggett gone, attorneys and the government will focus their fire on the other four major companies.

The Food and Drug Administration, the federal watchdog which seeks to have cigarettes regulated as drugs, has been handed a sweet victory in Liggett's undertaking not to give out free samples or use cartoon characters in advertisement.

That is an implicit acceptance of the FDA's assertion that these campaigns are deliberate attempts to hook children. — The Independent, London.

Historic US settlement paves way for action

'Quitting' tax for tobacco firms mooted

(87)(88) BD 18/3/96 (198)

Jacqueline Zaina

THE health department may call for an extra tax on the tobacco industry to fund a programme for weaning people off cigarettes.

Department officials, in the wake of a groundbreaking out-of-court settlement in the US, said at the weekend they were studying proposals for a 5% "quitting levy". Had such a levy been in place last year, it would have cost Rembrandt and Utico a total of R60m.

The proposal had been mooted in the department last week by its consultants, and it was considering whether to call on the finance department to introduce the tax.

A spokesman for Finance Minister Chris Liebenberg said the department was investigating the cost implications of a "package" of proposals from the health department, but was unable to say whether it would be sympathetic to a "quitting levy".

The move follows US tobacco manufacturer Liggett's $50m settlement with anti-tobacco lawyers, which sent shares of major tobacco companies sliding on Wall Street last week.

The deal, in terms of which Liggett, maker of Chesterfield, agreed to pay 5% of its pre-tax profit up to $50m over the next 25 years to establish a fund to help people give up smoking, was heralded abroad as a turning point which could see cigarette manufacturers sued for millions.

Director of the SA National Council Against Smoking Yussuf Saloojee said the Liggett case, in terms of which plaintiffs had in a class action lawsuit sought compensation for the consequences of smokers' addiction to nicotine, would open the way for SA smokers to institute similar proceedings.

The proposed levy would be another blow to the tobacco industry.

Rembrandt and Utico together had to spend R57m last year on packaging changes to carry prominent health warnings, and last week watched Liebenberg slap hefty increases on tobacco excise duties in the Budget.

Saloojee, a health department adviser, said most smokers wanted to stop and get help from "those responsible for their addictions".

Goldman Judin & Werner senior partner Michael Judin said: "We are going to see class actions similar to those in the US and Britain in this country, and tobacco companies would be well advised to take cognisance of the recent developments abroad."

R&R Tobacco Company CE Daniel Prins — Rothmans International's SA subsidiary — said a dedicated tax was not conducive to fiscal control as it would not be effected through normal democratic channels of tax collection and might not even be constitutional.

Primestar Partners, owned by a   that the cost of wiring a ne.

Industry ignoring health regulations, says lobby

Jacqueline Zaina (198)

THE anti-tobacco lobby, spearheaded by the Tobacco Action Committee, is taking a hard line on tobacco advertising.

It wants advertising of tobacco products banned in the wake of what it sees as the failure of the industry to implement health regulations adequately

"The industry has ignored the Tobacco Products Control Act and conducts itself as if it were above the law," said committee chairman Ken Shephard

Newspaper advertisements often did not list tar and nicotine content, and in many cases the warnings occupied a mere 10% of the total advertising space, rather than the stipulated 15%.

The anti-smoking lobby was also fighting to have the provision for equal radio airtime reinstated in the Tobacco Products Control Act. The provision that allowed for as much air time to flight health warnings and educational messages as was allocated to cigarette advertisements had been scratched from the Act in a concession won by the tobacco industry from the NP government.

Anti-smoking advertisements currently flighted on radio represented the views and concerns of the health department and anti-tobacco lobby groups, but were sponsored by the radio stations. The SABC stopped flighting free health warnings in October. "The SABC's reluctance to offend the tobacco industry, which spends R50m a year on television and radio advertising, is hardly surprising," said Shephard.

Why buy a

Tobacco firms to wait and see

(198)

Jacqueline Zaina

BD 19/3/96

THE tobacco industry is adopting a wait-and-see approach to proposals for an extra 5% tax on tobacco companies mooted by health department consultants last week.

A spokesman for R&R Tobacco, representing the merged tobacco interests of Rembrandt and Swiss-based Richemont, said the proposal would be subject to negotiation. The group would wait to see what emerged. It is estimated such a tax would have cost Rembrandt and Utico R60m last year.

Utico corporate affairs manager Hilary Thomson said the tax could be unconstitutional. It would constitute unfair discrimination as it placed an unwarranted burden on a given sector of tax-payers.

Airport tobacco ads to disappear

198

ARG 28/3/96

Staff Reporter

ALL tobacco advertisements are to be withdrawn from Cape Town International Airport and George Airport – and alcohol advertisements may disappear as well.

This follows a charge laid with the police by the Tobacco Action Committee (TAC) that advertisements in George contravene the Tobacco Products Control Act.

The Airports Company's Hennie Taljaard confirmed this week that the ads and billboards would be pulled down.

He said alcohol advertisements might soon get the same treatment.

A charge laid by TAC said that on ads at George Airport, the health warnings were smaller than required by law, and the tar and nicotine content of the cigarettes was almost illegible.

"The cigarette manufacturers are deliberately ignoring health regulations and dodging their legal responsibility to inform the public of the level of hazardous constituents in tobacco," a TAC spokesman said.

The Tobacco Institute of South Africa declined to comment.

The Airports Company has since reviewed its policy on tobacco adverts and the banning decision was taken as Mr Taljaard believed the adverts clashed with the offering of smoke-free zones to customers.

Instead, tourism in the Western Cape would be promoted, he said.

"We would far prefer to advertise God's creations."

At least seven ads had fallen and the remainder would disappear by April 15, after they had run their course.

The TAC spokesman regarded the decision as "a big step towards civic responsibility by The Airports Company".

junction with the external work by a new business unit named PELRAD

Research into tobacco: funding of MRC

*3 Mr K M ANDREW asked the Minister for Health (198)

Whether money has been or is to be provided by the Government for any funding of the Medical Research Council in respect of research relating to tobacco, if not, why not, if so, (a) what amounts are involved and (b) what are the reasons for the funding allocations?

N252E

The MINISTER FOR HEALTH

The MRC receives money from the Department of Health for its research programme From this amount it conducts tobacco research, which focuses on the impact of tobacco on health and also on the economic cost of tobacco

However, in 1995-96 the Department of Health funded the National Council Against Smoking to the amount of R262 000 for tobacco-related research The Council, in turn, gave the MRC R195 000 for tobacco-related research

The R262 000 given by the Department of Health to the National Council Against Smoking was for the following research activities

— to examine the impact of health warnings on tobacco packaging and advertisements on smokers' knowledge, attitude and behaviour

— to determine the impact of health warnings on tobacco advertisements on non-smokers' knowledge, attitude and behaviour

— to determine which, if any, of the health warnings have the most impact and why

— to determine the influence of education and socio-economic status on how the messages are interpreted

Mr K M ANDREW Madam Speaker, arising out of the hon the Minister's reply, may I ask her if she is aware that the allocation in the Budget this year to the Agricultural Research Council for tobacco research is R3 452 000, which is about 15 times as much as the R262 000 referred to in respect of last year for research into various aspects of the effects of the use of tobacco? If so, does she believe that that is an appropriate way to allocate Government funds in relation to the production of tobacco as against the combating of diseases caused by tobacco?

The MINISTER FOR HEALTH Yes, Madam Speaker, I am aware of that, but I think that each department has the right to allocate its funds according to what it thinks is correct, and I have no right to stop or to be involved in the allocation to the Ministry of Agriculture, but obviously, from the health point of view, I would have loved to have that money for health and for health-related research

Mr K M ANDREW Madam Speaker, further arising out of the hon the Minister's reply, may I ask her whether she believes that it makes sense for the Government to spend large sums of money helping those who produce products which make people sick, and then large sums of money to try to heal the people that their other sums of money have helped to make sick? [Interjections]

The MINISTER Madam Speaker, as Minister for Health, I would love to see everything in this country done in a way that promotes health, whether it relates to industries and pollution or whatever else, but unfortunately life is not like that There are lots of things happening in the Government and outside of the Government that members of Parliament may or may not be involved in which may not necessarily promote health, but I do not have the right or the ability to stop them So I may say that it does not make sense, but that is how life is [Interjections] The Minister here says that I should say that it is the anarchy of capitalism [Laughter] [Applause]

Mr D J DALLING Madam Speaker, question 4 is my question and I see that the hon the Minister is not here to reply personally

The SPEAKER Order! Someone is about to respond Would you please

Mr D J DALLING Madam Speaker, I would like to address you It is very likely that arising out of the answer I may wish to ask follow-up questions that Mr Matthews will not, I assume, be able to answer, though I thank him for being here I would suggest, therefore, that this matter stand over until next week, when it can be answered by the Minister personally

The SPEAKER I think that if the Minister has asked someone to respond to the question, you must at least hear the answer

Mr D J DALLING No, Madam Speaker I then withdraw the question

The SPEAKER That is your right [Interjections]

*4 Mr D J DALLING—Correctional Services [Withdrawn]

Links between SADF/International Freedom Foundation

*5 Dr R H DAVIES asked the Minister of Defence

Whether, with reference to his reply to Question No 14 on 23 August 1995, he is in a position to report on the endeavours of the Chief of the South African National Defence Force to obtain information on the links between the former South African Defence Force and the International Freedom Foundation, particularly in respect of funds that were paid to the IFF for services rendered, if not, why not, if so, what are the relevant details?

N254E

The MINISTER OF DEFENCE

The Chief of the National Defence Force has advised that he was unable to obtain the information requested by the hon member because all the relevant financial documents have been disposed of in accordance with Chapter M, section 1 2 1 of the Financial Manual of the Treasury and the Archives Act (Act No 6 of 1962)

Acting on the instructions of the former State President in 1990, the project authorising the former SADF to use the International Freedom Front as a conduit for the dissemination of information abroad was reassessed When no justification could be found for its continuation in the light of the new political dispensation which was at hand, the project was terminated After thorough audit, all financial documents were disposed of in accordance with the regulations stated before The Chief of the National Defence Force is therefore unable to provide the detailed information requested

I would like once again to reiterate that I am severely limited in my ability to answer questions related to the apartheid era because it is well nigh impossible to gain information where files and records are said to no longer exist

Mr L T LANDERS Mr Speaker, arising from the hon the Minister's reply, is he able to tell the House whether the Auditor-General would be in a position to provide the information requested by the hon Mr Davies, including the details of such funding?

The MINISTER OF DEFENCE Mr Speaker, I am not in a position to say whether the Auditor-General would be able to supply these details but if the hon member so desires, he can formulate the question and it will be referred to the Auditor-General It is up to the Auditor-General to say whether he is able to furnish the answer or not

Fishing/quota permits

*6 Mrs P DE LILLE asked the Minister of Environmental Affairs and Tourism

(1) Whether any public servants are in possession of fishing/quota permits, if so, (a) who are they and (b) what is the quantity value of such permits,

(2) whether the public has access to or may obtain a list of such permits, if not, why not, if so, (a) from whom and (b) where is it available?

N255E

The MINISTER OF ENVIRONMENTAL AFFAIRS AND TOURISM

(1) As far as can be ascertained from the quota register no public servants are in possession of fishing quota permits

(2) An updated register of quotas is kept at the offices of Sea Fisheries and is open to inspection by the public at large on weekdays between 09 00 and 12 00

Mrs P DE LILLE Mr Speaker, arising out of the hon the Minister's reply, I just want to say, in case he is not aware of who is a public servant and who not, that there are, in fact, some public servants in possession of quotas If the Minister would like I can give him the names next time We need to ask those public servants to hand over those quotas to the subsistence fishermen, and that is why I asked the question [Interjections]

The MINISTER OF ENVIRONMENTAL AFFAIRS AND TOURISM Mr Speaker, that was not the question but if the member has that information, she can use it in whatever way she sees fit However, the Sea Fisheries Act does not rule against any public servant having a quota Many of the fishing companies are quoted on the Stock Exchange and people can buy shares [Interjections] There is no restriction in the Sea Fisheries Act on anyone holding shares or quotas

Govt to ban tobacco ads

(198)

Jacqueline Zaina

BD 1|4|96

GOVERNMENT plans to ban tobacco advertising in an attempts to rein the industry in

The health department said at the weekend that Minister Nkosazana Zuma planned to introduce "comprehensive tobacco legislation" as proposed by the World Health Organisation to ban tobacco advertising, and that the industry had flouted current health warning regulations.

Officials did not put a timeframe on the plans, nor whether they would include banning tobacco promotion through sponsorship or marketing activity.

Illegal tobacco imports flourish

(198) BD 13/5/96

Louise Cook

PRETORIA — The customs and excise department has warned it lacks the resources to staunch the flood of contraband cigarettes pouring into SA.

The industry said last week that at least 2% of the industry's estimated R6,5bn-a-year sales had been captured by illegal trade, with many contraband cigarettes now sold over the counter in shops and cafes.

But the department, already engaged in raids on illegal textile, liquor and tyre imports, said it needed more staff to fight the problem.

"We simply do not have the manpower to follow up all complaints immediately," commissioner Daan Colesky said.

He said that new staff needed extensive training before they could be sent into the field.

The industry said the contraband trade, which pulls in brands such as Camel and Marlboro mainly from Mozambique and Angola, had been spurred on by hefty excise duties in recent years.

Illegal imports were identified by the absence of health warnings on the packets.

Rembrandt said another problem was that people bought cigarettes from wholesalers ostensibly for export but forged documents to avoid VAT and sold the product back into the local market.

United Tobacco said illegal sales probably accounted for far more than 2% of the market.

A spokesman for Utico said the tobacco company had also reported several supermarkets and cafes for selling contraband cigarettes to customs officials and the police.

"We rely entirely on the authorities to fight it.. We cannot simply go in and confront offenders."

Lowveld tobacco co-operative MD Louis Smit said the growing trade would hit the SA industry's 35 000-strong direct workforce.

The Tobacco Institute of Southern Africa said about 200 000 people depended on the industry for a living.

Tobacco interests help to lift Rembrandt's earnings

(198) CT (BR) 14/5/96

By Marc Hasenfuss
CAPE EDITOR

Cape Town — The Rembrandt Group's earnings were expected to rise between 25 and 28 percent in the year to March 31 because of a steady showing from its tobacco interests, analysts said yesterday

The three industrial analysts canvassed predicted the earnings figure would range between R2,78 and R2,80 a share.

The group declared a final dividend of 37,95c a share in February, raising the annual payout 25 percent to 62,45c

"The stronger trend of the first half has continued through to the full year There's no reason why they shouldn't keep this up," one analyst said

Analysts expected the dip in local tobacco sales to be cushioned by the formation of Rothman's International Holdings through the merger of Rembrandt and Richemont's tobacco interests

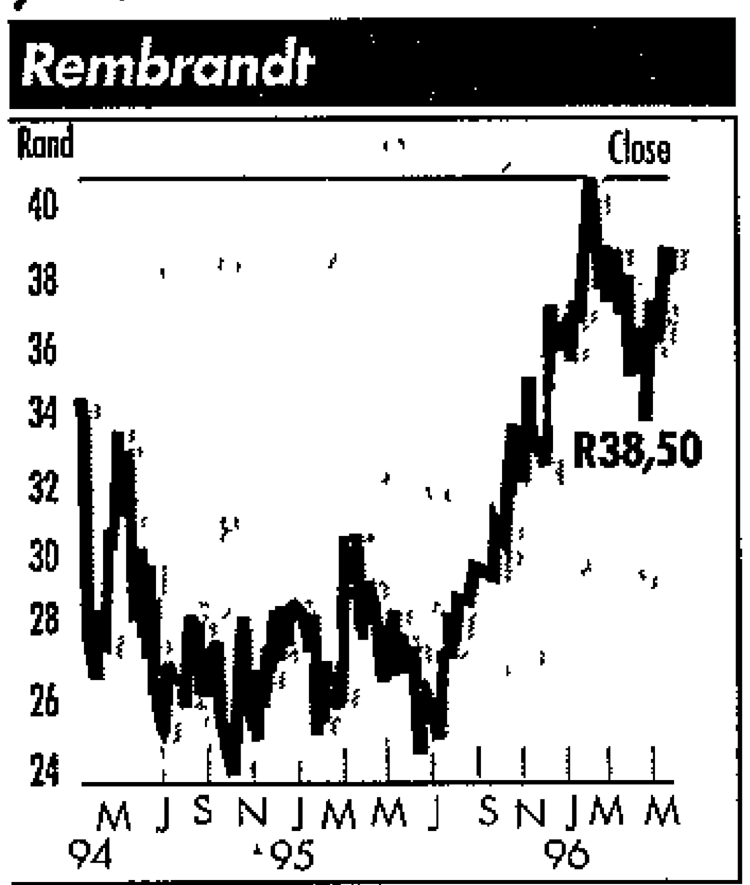
"They've got a one-third interest in the enlarged tobacco company and this equity-accounted profit contribution should offset modest local tobacco sales," he said

The three also said abnormal costs associated with tougher tobacco legislation had been written off in the previous financial year

These write-offs of nearly R50 million were largely responsible for the previous year's below-par earnings growth of 5 percent

Rembrandt's other interests were mostly set to contribute satisfactorily to the bottom line

These include Medi-Clinic, Trans Hex, Metkor, Gencor and Goldfields There were concerns over Huntcor, the timber and food holding company's prospects, however One analyst said an unbundling of Rembrandt's food interests in Hunt Leuchars & Hepburn was a possible solution



Cigarette levy 'should not subsidise sport'

(198) CT(BR) 29/5/96

By Roy Cokayne

Pretoria — A proposed cigarette levy for sport development would establish a spurious fiscal linkage between two unrelated activities, Mike Truu, of the University of Pretoria's economics department, said yesterday

He said it would also distort the price system and lead to a misallocation of economic resources

Steve Tshwete, the minister of sport, proposed the cigarette levy in the senate recently during discussion on his budget vote

Truu said the proposed levy was in contrast to a tax on petrol, which subsidised road construction and maintenance and was paid by road users themselves The new tax would thus represent a user charge

He said a cigarette tax would distort all the basic linkages in the economy People should pay tax on things they consumed, he said

"Exceptions are made but this is getting out of hand No other product is as discriminated against as tobacco," he said

Truu said increasing the tax on tobacco also created the potential for smuggling, particularly as there were two other large tobacco producers in southern Africa

He said the proposed levy or surcharge would also be a particularly harmful example of cross-subsidisation and establish a precedent politicians might use again

The policy of robbing Peter to pay Paul would cause waste and might lead to corruption among sports administrators, he said

There were many deserving causes in society It would be impossible to finance them fully by taxing profitable economic activity

A spokesman for the Tobacco Institute said the tobacco industry was one of the highest-taxed industries in the country Last year it contributed more than R2,4 billion to the fiscus for the government to use for its national priorities

The spokesman said the institute agreed with the government's reservations regarding the undesirable effects of dedicated taxes

They could hamper the fiscal authorities in apportioning tax revenue to the most pressing national needs, he said

Star 1/6/96

More companies join the clean air bandwagon as puffers banished

(198)

By VENILLA YOGANATHAN and BENITA VAN EYSSEN

With the Department of Health seemingly bent on transforming South Africa into a smoke-free haven, an increasing number of public service groups and private companies are introducing smoking bans on their premises

According to Dr Yussuf Saloojee, head of the National Council Against Smoking, some 30% of private companies throughout the country do not allow smoking on their premises or have restricted it to certain parts of their building.

Following closely on the heels of British Airways, SAA has introduced smoke-free domestic and international flights

Health Minister Nkosazana Zuma has made no secret about her campaign to cut down on the number of smokers in South Africa and to make smoking-related laws as stringent as possible. Last year she introduced new cigarette advertising legislation that made it compulsory for 30% of the cover of cigarette packets to contain a warning about the dangers of smoking.

The phone number of a toll-free helpline, which offers free advice on how to quit smoking, must also be printed on all packs.

If hard-hitting recommendations – based on New Zealand's anti-smoking legislation – which were put before a parliamentary committee are adopted, companies could soon be obliged by law to implement strict smoking policies.

Among the proposals which have already been given the thumbs-up by Zuma are:

- A smoking ban at all workplaces where offices are occupied by more than one person, unless written permission is obtained from non-smokers.
- In open-plan offices, all non-smokers must provide written permission before their smoking colleagues can light up; alternatively, employers should consider providing special smoking rooms.
- A complete ban on smoking in conference rooms, lifts, corridors and other shared areas
- Company cafeterias would have to bar at least half of their dining areas to smokers, or hold two separate dining sessions
- Similar rules would apply in restaurants, with owners being obliged to have at least half of their dining tables for non-smokers.
- At schools, technikons and universities, smoking would be completely outlawed, as it would be in buses, taxis and trains, except in designated compartments.

If the proposals are made law, employers who fail to obey the rules could land up paying heavy fines or face stiff jail terms. Staff who fail to comply could face similar penalties.

At companies which have already implemented smoking bans, staff, including heavy smokers, appear to have adjusted easily. If anything, smoking bans have led to addicts cutting down on their nicotine intake or giving up completely

Smokers at Standard Bank's head office have to leave their desks to smoke in demarcated smoking areas in its open-plan offices. To accommodate the rights of both smokers and non-smokers, Standard took to designating smoking zones in all its buildings, including bank branches, after researching the policies of other companies here and abroad Of the corporation's 30 000 staff, between 20 and 30% are smokers.

Group human resources manager John Thompson said· "Initially, productivity was negatively affected but this has changed since most staff have developed some sort of routine when it comes to smoke breaks "

Eskom's Megawatt Park offices were declared smoke free late last year. Of the almost 4 000 staff, those who smoke do so in one of 28 coffee bars or special smoking areas According to spokesman Peter Adams there has been no noticeable decrease in productivity and the policy has been very effective.

Welcoming the change in attitude towards the killer habit, Saloojee said the National Council Against Smoking's campaign was definitely bearing fruit

Smoking on borrowed time

(198) ARG 1/6/96

In keeping with international standards, South Africans could soon be stubbing out more than they are lighting up in public places and at work as the trend to implement smoking bans gains momentum.

VENILLA YOGANATHAN
Own Correspondent

WITH the national Department of Health seemingly bent on transforming South Africa into a smoke-free haven, an increasing number of public service groups and private companies are introducing smoking bans on their premises

According to Yussuf Saloojee, head of the National Council Against Smoking, around 30 percent of private companies throughout the country do not allow smoking on their premises or have restricted it to certain parts of their buildings.

And following closely on the heels of British Airways recently, SAA has introduced smoke-free domestic and international flights.

National Minister of Health Nkosazana Zuma has so far made no secret about her campaign to cut the number of smokers in South Africa and to make smoking-related laws as stringent as possible

Last year, she kicked off by introducing new cigarette advertising legislation.

It is now compulsory for 30 percent of the cover of a cigarette packet to contain advertising warnings about the dangers of smoking

A toll-free help-line, which offers free advice on how to quit smoking, is also required to be printed on all packs

If hard-hitting proposals – based on New Zealand's anti-smoking legislation – which were put before a parliamentary committee, are adopted, companies soon could be obliged by law to implement strict smoking policies

Among the proposals which have been given the thumbs-up already by the health minister are

- A smoking ban at all workplaces where offices are occupied by more than one person, unless written permission was obtained from non-smokers.
- In open-plan offices, each non-smoker must also provide written permission before his or her smoking colleagues can light up, or alternatively, employers should consider providing smoking rooms.
- A complete ban on smoking in conference rooms, lifts, corridors and other shared rooms.
- Company cafeterias would have to bar at least half of their dining areas to smokers, or hold two separate dining sessions
- At restaurants, similar rules would apply, with owners being obliged to cater at least half of their dining tables for non-smokers
- At schools, technikons and universities, smoking would be completely outlawed, as it would be in public transport vehicles such as buses, taxis and trains, except in designated compartments.

If the proposals are accepted and become law, employers that failed to obey the rules could be held liable for several thousands of rands in fines or spend six months in prison.

Staff who failed to comply could face similar penalties.

At companies which have implemented smoking bans already, staff, even heavy smokers, appear to have adjusted easily.

If anything, smoking bans have led to long-standing addicts cutting down on their nicotine intake, or even giving up completely

At the NBS open-plan corporate headquarters in Durban, neither staff nor visitors are allowed to smoke in the building, except in specially provided smoking rooms.

Mahala Manley, assistant general manger of human resources, said the smoking ban had not affected productivity.

"Staff are permitted to smoke during their lunch-breaks and are permitted two smoke breaks during the day"

She said smokers were now smoking fewer cigarettes and non-smokers were no longer suffering from the effects of passive smoking.

"It may be inconvenient for a while, but people get used to it and it solves the smoking problem."

Smoking also is banned in most parts of the TWS Communications building in Durban

Deputy chairman Denzil Bradley said the company had catered for the majority of the staff, who were non-smokers, by implementing the ban

"Fortunately, we didn't have any heavy smokers The smokers on the staff were all mainly social smokers, so in our case, the ban has worked very effectively," he said

Yvette Baxter, public relations officer for Adcock Ingram, said smoking was not allowed at the company's Mobeni-based buildings, except in the canteen.

Staff were allowed to smoke only during their tea-breaks and lunch-breaks.

"It has been very effective and has not affected the day-to-day running of the place"

Welcoming the change in attitude towards smoking, Mr Saloojee said the National Council Against Smoking campaign, definitely was bearing fruit.

Painting a morbid picture for both smokers and non-smokers alike, the anti-smoking group's Mr Saloojee predicted that smoking would become the No 1 cause of death in the world in less than five years.

Already 3 million people were dying of smoking-related diseases each year throughout the world, according to the World Health Organisation (WHO), Mr Saloojee said

But even people who had never smoked a cigarette in their lives would not escape from the effects of smoking, as passive smoking could lead to their contracting fatal diseases, he quoted the WHO as saying.

Tobacco industry could cough up

(198) (BD 3/6/96)

Samantha Sharpe

GOVERNMENT could consider calling on the tobacco industry to refund it for costs associated with treating smoking-related illnesses, the health department said at the weekend

The department, which has already mooted an additional 5% tax on the industry to help fund a programme to wean people off tobacco, said it would consider all recommendations aimed at reducing the effect of tobacco on health and the economy

Spokesman Marie Venter said latest Medical Research Council estimates showed tobacco cost SA around R2,2bn a year in lost productivity due to premature death and hospitalisation and outpatient costs in the public sector alone This represented a "conservative" analysis, she said

The Tobacco Institute for Southern Africa dismissed the department's proposals Spokesman Cor Leijenaar said the figure appeared to be incorrect

According to a detailed study, he said the tobacco industry made a contribution to the economy which far exceeded the alleged social cost of smoking

He said there were "serious reservations" within government about the 5% tax "regarding the undesirable effects of dedicated taxes of this nature, namely the way they bind the hands of the fiscal authorities in apportioning tax revenues to the most pressing national needs of the day"

The industry had contributed about R3,1bn in taxes last year, he said □ **Kathryn Strachan** reports that new research suggests that recently introduced health warnings on cigarette packs and adverts may be taking effect, the council and the Human Sciences Research Council said on World No-Tobacco Day on Friday

The studies indicated a decrease of 2% in smoking trends among adults in the past year, taking the smoking rate down to 32% It also showed 23% of smokers would like to stop smoking and 18% of smokers have tried to quit.

The department and the Medical Association said that the health risks of smoking have been substantially underestimated. Studies show that 50% of smokers will eventually die of this addiction, with half of these deaths occurring in middle age (35 years plus).

This year's focus has fallen on the role athletes and artists can play in promoting non-smoking and also to raise awareness about how the industry uses sponsorships to promote products and to buy legitimacy and allies

The International Olympic Committee also put its weight behind World No-Tobacco Day, and it is not allowing tobacco companies to advertise or promote their products in any way at the Olympic Games in Atlanta

The World Health Organisation says that sports and cultural events, which should celebrate good health and cultural independence, are cynically used to promote addictive and hazardous products among the young.

With the introduction of health warnings, the industry has shifted its advertising budgets to sponsoring sports and music concerts. Advertisements promoting such events do not carry warnings and can be televised

The National Council Against Smoking says they make a sham of the Advertising Standards Association code which requires that "no tobacco advertising will depict celebrities in the sporting or entertainment world nor any other person who shall particularly appeal to those under 18 years "

The WHO has proposed governments increase taxes on tobacco products and allow health bodies to use the revenue to sponsor arts and sports

Increased earnings for Rembrandt expected

(198) BD 27/6/96

Linda Ensor

CAPE TOWN — Rembrandt was expected to report an earnings increase of 25% to 30% when it released its year-end results tomorrow and would shortly announce a R140m capital injection into troubled subsidiary Rainbow Chicken, sources said yesterday.

Analysts said a recapitalisation of at least R550m for Rainbow had become necessary after its disastrous R160m attributable loss for the year to March. Rembrandt holds 83% of Huntcor which has a 76,3% stake in Rainbow's major shareholder Hunt Leuchars & Hepburn (HLH)

HLH would not comment on the recapitalisation issue until the cautionary announcement to shareholders was followed up by a formal statement

Strong performances by Rembrandt's core underlying interests and improved profitability in its cigarettes division would be behind the earnings growth in the year to end-March, analysts said. The results came off a low base after the group was knocked by a number of abnormal items last year with headline earnings rising a mere 10,4% to 221,8c a share

Rembrandt's total dividend for the year to March, announced a few months ago, was 25% higher at 62,45c a share. In the six months to end-September the group lifted attributable income 74,7% to R673m, following a strong performance from its tobacco interests

SM Securities analyst Carel Oosthuizen said especially important would be the turnaround of Vodacom which was believed to be back in the black. Rembrandt's share of its losses last year amounted to a heavy R33m

Also contributing to the results was the performance by 75%-held Metkor, which had reported headline earnings of 72,37c a share for the 18 months to end-March compared with 6,47c for the year to end-September 1994, analysts said. Dorbyl too had turned in a remarkable showing

Most analysts did not expect turnover growth from the trademark division, mainly cigarettes, which was by far the biggest single contributor, about 45%, to total earnings.

However, the margin should improve as a result of internal rationalisations. Higher excise duties and health warnings required under the Tobacco Control Act had cut into tobacco consumption, Oosthuizen said.

The benefits of last December's merger of Rembrandt's tobacco interests with those of Richemont would be felt only in the current year However, analysts said the merger was likely to have a "neutral effect" on bottom line.

Huntcor, which reported a sharp earnings drop to 89c (profit 27c) in the year to March, would prove a drag on Rembrandt's performance as a result of problems with Rainbow's management and its sugar interests.

Oosthuizen believed mining (Gencor, Goldfields SA and Trans hex) would contribute about 25% to total earnings, industrial interests (Dorbyl, Huntcor, Metkor and dividends from Engen, Sappi and Malbak) 10%; financial services (Absa and Sage) about 10% and corporate and other services (Vodacom, Medi-Clinic and offshore portfolio investments) about 7,5%.

Absa increased headline earnings 30% and Sage 28%.

Tobacco helps to light up Rembrandt

(198)

Linda Ensor BD 28/6/96

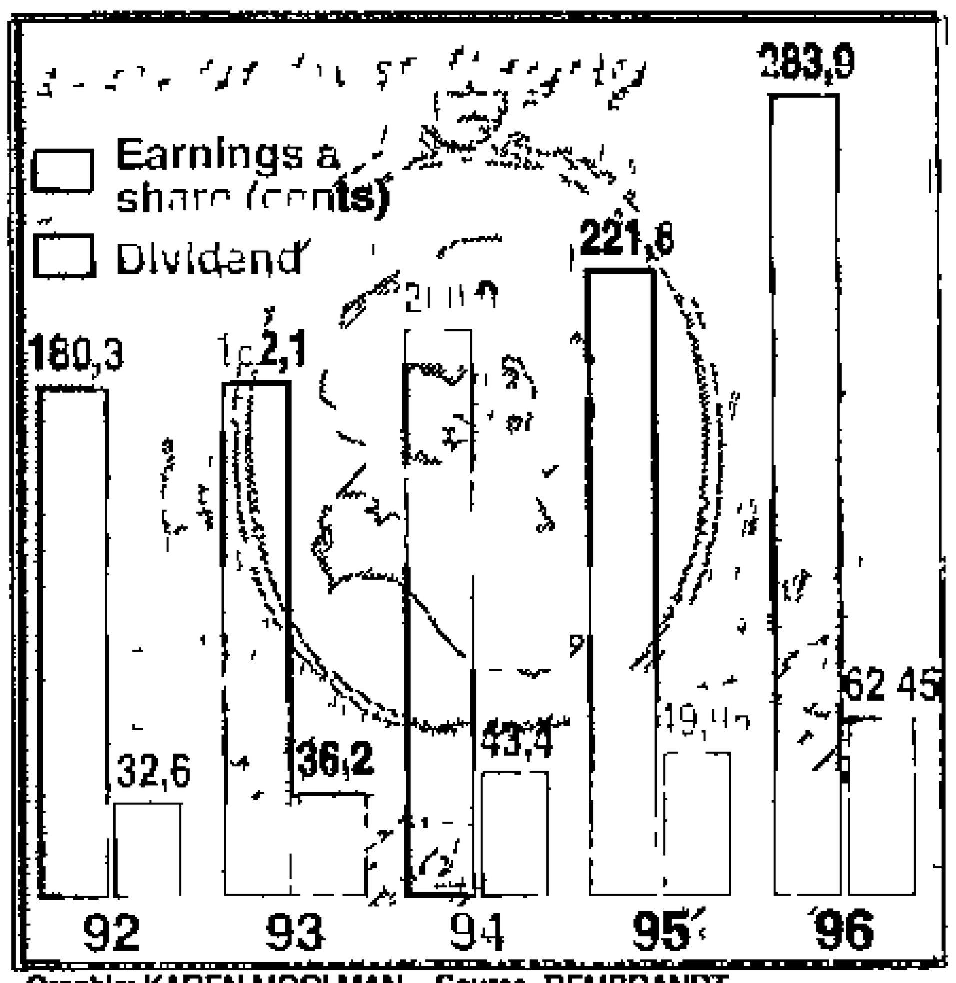
CAPE TOWN — Multibillion-rand group Rembrandt reported a 28% rise in headline earnings in the year to March after sound performances by its tobacco and other interests offset its industrial division's lacklustre returns.

Net attributable income was sharply higher at R1,48bn (R949 000), with earnings a share coming in at 283,9c (221,8c), allowing a total dividend of 62,45c (49,96c), 4,5 times covered.

A lower tax rate of 35% (39%) helped boost the bottom line and partly offset the sharp drop in the margin, which saw pre-interest operating profit fall 8,5% to R1,27bn despite the significantly higher turnover

Turnover of R7,4bn was generated but was not comparable with the 1995 figure of R5,4bn as it included tobacco sales for only the first six months and reflected Remgro's increased stake in 75%-held Metkor (previously 49,9% held) and its subsidiary Dorbyl, which was consolidated for the first time

Attributable income from the trade mark group, the main contributor to group profits, which housed its tobacco and liquor interests, shot up 30,4% to R806m Mining income rose 27,5% to



Graphic: KAREN MOOLMAN Source REMBRANDT

R246m. Income from industrial interests plunged 27,6% to R106m largely due to Huntcor's poor performance.

Financial services net income climbed 30% to R117m and corporate finance and other interests kicked in R207m, 86,5% up on last year's figure

Tobacco interests, previously wholly owned, were merged in a new associated company, Rothmans International Holdings, in which Remgro had

Continued on Page 2

Rembrandt

(198)

Continued from Page 1 BD 28/6/96

a one-third share from October, accounted for in the results on this basis.

Divisional contributions to total net attributable income shifted marginally during the year as follows: the trade mark group contributed 54,4% (53,4%), mining 16,6% (16,6%); industrial interest 7% (12,6%); financial services 7,9% (7,8%); and corporate finance 14% (9,6%).

At year-end the group had cash resources of R1,5bn (R1bn).

Its listed investments had a market value of R5,6bn (R4,6bn) and directors valued its unlisted investments at R16,3bn (R4,5bn).

Rembrandt Controlling Investments (RBB) earnings were 210,3c (164,5c), Technical Investment Corporation's (Tegkor) earnings were 185,1c (144,2c) a share, and Technical & Industrial Investments (TIB) 196,2c (152,8c).

See Page 15

Richemont lifts its profit to £798,9m

John Cavill (198) BD 28/6/96

LONDON — Richemont, the Swiss-based tobacco, luxury goods and media empire of the Rembrandt group, saw operating profit climb 16,1% to £798,9m in the year to March, boosted by rising sales and cigarette prices and as well as gains by Vendome

Net attributable earnings were about 21% higher at £316,1m Earnings a Richemont unit were 21% up at £55 A dividend of £8 will be paid, a 14,3% increase.

These figures exclude exceptional items — £160m profit on the merger of Richemont's tobacco operations with those of Rembrandt and the £23m realised from property sales in 1994 and last year

Reporting from Zug yesterday, chairman Nikolaus Senn and MD Johann Rupert said worldwide volume sales by Rothmans International rose by 2%, and by 6,2% in net value to £3,2bn This figure included a full year of the Rembrandt operations which had been acquired in January

Gains in the former Soviet Union, equatorial Africa, the Middle East, Southeast Asia and Canada outweighed slippage in SA, western Europe, Australia and Indonesia

Vendome's luxury goods contribution of £1,47bn sales raised turnover nearly 12% to £4,3bn Profits from these two subsidiaries were 18% up at nearly £830m

This was offset by Richemont's share of associated companies While tobacco was more than 50% better at £18,7m, losses in its pay-television interests (held through 50% of Nethold BV) rose more than £8m to £46,3m — reflecting the costs of expansion in Italy and Africa and the start of services in central Europe and Greece

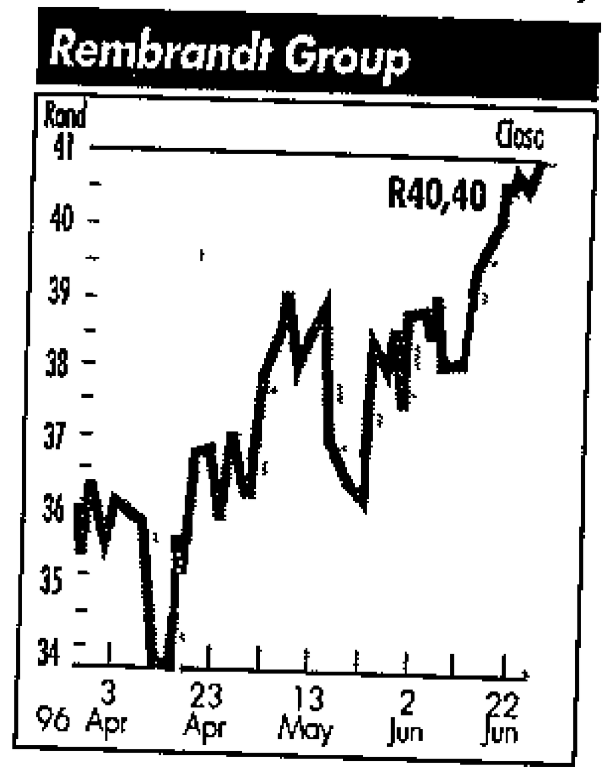
The balance sheet shows a swing from net liquid funds of £1,2bn to borrowings of £240m as a result of the £1,65bn buyout of the Rothmans International minority shareholders and Richemont's £188m investment in Nethold's pay-TV developments.

Now we're really smoking

(198) CT(BR) 28/6/96

The growing anti-tobacco lobby worldwide hardly dampened the performance of Rembrandt and Richemont — both delivering smouldering sets of results for the year to end March

Comments accompanying Richemont's results suggest only a modest increase in Rothmans International's worldwide tobacco sales, but trading margins in the cigarette market still seem rich Effective cost-cutting, price increases and increased demand in new markets all helped tobacco profits Rothmans' brands include Dunhill, Peter Stuyvesant, Rothmans and Craven A Rembrandt's so-called "sin" interests — the trademark group's liquor and tobacco interests — again provided the profit spark with a hefty R806 million contribution to bottom line This is more than half the R1,48 billion attributable income One analyst estimated tobacco's contribution to bottom line was up by as much as 30 percent The only glitch on the sound set of results was the dip in Rembrandt's industrial interests, which include the problematic HLH and Rainbow The company's role in the revitalisation of both underperforming companies is critical Richemont still managed a strong performance with strong results from tobacco offsetting a modest showing by luxury goods But the continued losses from Richemont's television pay-channel arm must be worrying to shareholders Directors comments that further losses are expected in the year ahead are ominous.



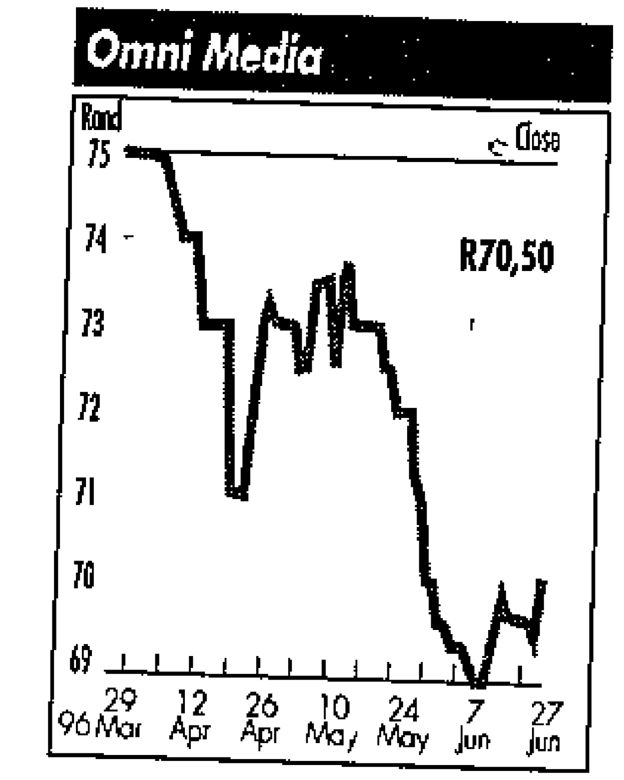
It seems unlikely that Richemont will turn its back on its media interests, which are viewed as future growth areas. The 50 percent-held Nethold houses the company's media, including FilmNet, MultiChoice and investments in Telepiu and M-Net Richemont's commitment to grow this sphere of its business interests is seen in Nethold's decision in October to increase its stake in Telepiu Directors outline numerous new developments in this field, like digital pay television projects in Italy, Africa, the Benelux and the Middle East, but no reference is made to when the division could start chipping in at bottom line Richemont also realised a loss of £3,2 million from its share of the NAR Group's operating loss The NAR Group holds controlling stake in Hanover Direct

Standard Bank

At last the competition has started to arrive for bonded home owners, and this will hopefully be extended to their other banking needs Standard Bank's new capped rate mortgage, which enables a home owner to get a rate 2 percentage points below what they would otherwise have been charged, signals a different way of banking The other commercial banks will be pressed to offer their clients similar products or, as Nedcor did a few hours after Standard Bank's announcement, lower the rates on their fixed-rate mortgages Nedcor's move effectively matches Standard Bank's capped rate A fixed-rate mortgage potentially limits the benefit of lower rates, as the bank is not obliged to offer a new lower rate for fixed-rate mortgages when interest rates decline With a capped mortgage, a home owner is assured of a lower rate when interest rates head down Standard Bank's competitors will undoubtedly copy it in time, or they would risk losing out on new customers The next sea-change in home loans will be for a bank to cut the costs of bond transfer and registration When that happens, banks will be able to lure existing home loan clients away from their competitors Are the banks willing to be that competitive?

Omni

Although it may not have been politically astute, Finance Minister Trevor Manuel's remark about the market is certainly understandable on an intellectual basis. Look at what the so-called market is doing with MIH That company, whose principle investment is a 40 percent stake in Nethold, is not expected to show any profit for the best part of three years as development costs eat into whatever profit it generates through an increase in its subscriber base and much more, incurring hefty losses in the process Such is the state of affairs, that its shareholders have written their investment in MIH down to nil Despite this the investment community, no doubt with an eye to the long term in this highly dynamic industry, has propelled the MIH share price to great heights The increase has largely accounted for the substantial increase in OmniMedia's share price, which moved from R35,14 to R79,88 during financial 1996 So, although MIH accounts for nil in OmniMedia's books it makes up about 40 percent of the underlying value of OmniMedia's share price



Premier

The market responded positively to Premier Group's results although analysts were far from happy and whinged about many aspects of them Not least of which was management's treatment of R30,3 million of write-offs relating to prior year debtors This amount was taken as an exceptional item, which some analysts reckon was totally inappropriate

"This wasn't exceptional, it just shows that management wasn't on top of things It's a management issue and should be included in the operating results" was one of the milder responses. Less mild was the analyst who questioned whether there was any point in supporting the group's fourth rights offer in a decade "How do we know they're not going to blow this against the wind as well"

One suggestion was that Premier sell off its stake in all of its highly profitable listed interests, use part of the proceeds to pay off the debt at the centre and the rest could be paid out to the long-suffering shareholders

Despite all the whinging, the share price moved ahead during the day and there is strong evidence of solid support for the head office team that has produced significant improvement in parts of the group's trading operations

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

FRIDAY JUNE 28 1996

Rembrandt meets expectations as tobacco interests bolster bottom line

(198) CT (BR) 28/6/96

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Rembrandt, the tobacco and industrial group, met the upper ranges of market expectations with a 28 percent increase in net income to nearly R1,5 billion for the year to March 31

Earnings a share increased proportionally to 283,9c That meant the 62,45c a share collectively paid last October and in February was covered 4,5 times

Turnover touched R7,4 billion, but was not comparable to last year's R5,4 billion as the period under review included turnover from the Rembrandt and Richemont tobacco merger for the first time

The contribution from 75,7 percent-held Metkor, the engineering holding company, was also consolidated for the first time

Net attributable income after exceptional items was 56 percent higher at R1,48 billion, but last year's figure included exceptional losses of R214 million

Tobacco interests — housed with the liquor interests under the Trade Mark Group — with earnings of R806 million made the biggest contribution to the bottom line

Richemont, the Hertzog and Rupert families' Swiss-based cigarette and luxury goods company, increased attributable profit by 21 percent to £316 million on the back of solid performances from its tobacco interests in the year to March 31

Despite a slender 2 percent rise in total cigarette sales to £3,2 billion the tobacco interests, held through Rothmans International, Richmont reported a rise of 21,3 percent in operating profit to £606 million

Operating margins were bolstered by price increases, production cost savings and exchange rate movements

The Vendome Luxury group increased its contribution 12 percent to £250 million However, continuing development costs at the company's pay-television channel interests — held through Nethold — raised the divisions losses by over £8 million to £46,3 million

Losses for Nethold are expected to increase in the year ahead

The dividend payout was increased 14 percent to £8, covered a conservative 6,8 times by earnings of £55,05

The company also reported, as an extraordinary item, a net gain of R160 million stemming from the merger of its tobacco interests with Rembrandt in January

This merger diluted Richemont's stake in Rothmans from 100 percent to 66,7 percent

☐ See Business Watch Page 18

Curbs will reduce print media to ashes

Star 5/7/96 (198)

By Cheryl Hunter

Rigid anti-tobacco legislation, in line with the growing global lobby against smoking, is poised to impose severe restrictions on advertising which the media industry currently relies on for a substantial portion of its revenue

Most forms of media, including newspapers, radio and magazines, are largely dependent on the tobacco industry for millions of rands worth of advertising and sponsorship each year

If South Africa chooses to follow international trends next year by banning tobacco adverts, certain media could face a financial crisis

The World Health Organisation has drawn up draft legislation advocating a total ban on the advertising of tobacco and its related products and the Ministry of Health in South Africa is considering adapting those recommendations here

Tobacco firms can accept big restrictions

But many people are unsympathetic as they believe the media has played a decisive role in perpetuating the culture of tobacco smoking with their financial dependency on the tobacco industry.

Executive director of the Council Against Smoking, Yussuf Saloojee, said he favoured the ban because advertising influences young people more than adults.

"They remember advertising better and are more influenced by it They also read more adverts than adults," he said.

Tobacco advertising preys on our perceptions of ourselves, according to Saloojee. "African and Asian women very rarely smoke, so the tobacco industries are targeting their marketing at these women," he said

He cited recent Japanese and Indian adverts where a new brand of cigarette was being aimed directly at women in those countries and marketed as symbolising a "Western, affluent, feminist lifestyle" where "the ideal woman declares her independence with a decision to smoke"

"This is a woman's health issue," Saloojee said

The Tobacco Products Control Act, implemented in 1993, effectively prohibits the sale of cigarettes to anyone under 16 years of age, allows the Minister of Health to regulate smoking in public places and makes it a legal requirement to carry health warnings on tobacco products and advertisements

When this was introduced, however, the SABC used its enormous lobbying power to make sure that health warnings were not required on radio

"They objected because newspapers and billboards could hide the health warning in black and white print which people would eventually ignore, but on radio the warning would continue to hit you between the eyes," Saloojee said

He said the only other strong argument against health warnings on radio was that tobacco advertising comprised up to 20% of the revenue for many of the radio stations and that the tobacco industry had threatened to withdraw all advertising if they were forced to carry a warning with the adverts

The SABC won out – but not entirely A compromise was reached where there would be no health warning accompanying the adverts, but a percentage of time would be allocated for counter-advertising and this would be broadcast at no cost to the council by the SABC Hence the "And now we're really smoking" adverts

This reprieve was granted to radio stations until May 1996 and renewed by the Ministry of Health this year, but things may change considerably next year

Radio [illegible] executive sales and marketing manager, Rob Hayne said "We have been given a reprieve until May 1997, but this does not mean that there will be no more tobacco ads next year We will lobby extensively to keep on advertising and our chances of success are pretty good"

His belief in their ability to deflect the health department's attempts at regulation relies on the financial implications of discontinuing tobacco advertising

"The public broadcaster needs to be financed and we cannot burden the taxpayer with this shortfall"

His confidence may be inappropriate One of the largest international tobacco companies and the makers of Marlboro cigarettes, Philip Morris, are so worried about US proposals to regulate the industry that they have agreed to support strong measures to curb tobacco use by minors if the US government drops efforts to regulate tobacco

Health warnings not needed on radio

As part of a new federal law to restrain teenage smoking, they have said they will accept a nationwide minimum age of 18 for buying tobacco products, ban cigarette names and logos on t-shirts, baseball hats and other non-tobacco items, establish a $250-million (about R1-billion) enforcement fund to be financed by the tobacco industry, ban all outdoor advertising of tobacco products within 300m of a school, ban sales of single cigarettes or packs with fewer than 20, ban all cigarette vending machines and ban tobacco advertising at sports events with significant youth audiences

This they are willing to accept in return for continued exemption from regulation by the US Food and Drug Administration – whose proposals include regulating what goes into a cigarette and labelling cigarettes "nicotine-delivery devices"

But Saloojee and his US colleagues criticise this move "A US survey shows that [illegible] their cigarettes from vending machines and this concession would not affect sales

"They are effectively giving in on the smaller battles to avoid the larger ones which will cost them dearly," he said

Other members of the media industry have taken a hardline stance "Personally I am against compromising people's freedom of activity and this is exactly what is being proposed here," general manager of sales at Times Media Limited, Trevor Ormerod, said

"We will support the tobacco industry for as long as we can," he said

Ormerod said there simply are no alternatives for advertising revenue "When cellular phones were introduced here we were very happy because they represented more revenue, but there's no way they will make up for the loss of the tobacco industry"

Independent Newspapers advertising and marketing director Steve Serfontein said banning the adverts would represent "an abuse of people's rights" by not allowing for freedom of choice

"Not only that, but I believe we will lose a lot of employment, which is the last thing we can afford," Serfontein said, adding that radio and the print media would suffer the most from the change in advertising revenue

Hayne also believed that there would be a "hole" if tobacco advertising was banned "We can only hope that these people would then buy the time currently utilised by cigarette ads," he said

The Ministry of Health refused to comment on what possible legislation lay ahead for the tobacco industry, but the unspoken advice to the media was to start probing for alternative sources of

REMBRANDT GROUP FM 5/7/96

MORE OF A RAND HEDGE

(198)

Despite legislated health warnings, punitive excise duties and the anti-smoking lobby, there's still good money in tobacco That comes through clearly in Rembrandt Group (Remgro)'s results a 28% increase in EPS (before exceptionals) is at the top end of forecasts

Tobacco interests are housed in what Remgro calls its trademark group Net income from this source increased 30,4% to R806m, more than 54% of the total Though trademarks include Remgro's liquor interests, the bulk is tobacco — probably accounting for just under 50%

Remgro's tobacco interests were merged last October with those of Swiss-based Richemont Remgro now holds 33% of offshore Rothmans International Holdings Benefits of the merger will only start to come through this year, the main one being hard currency earnings

The merger has also raised Remgro's rand hedge profile, probably part of the reason for the share's strong run, which at R40,60 is a new high for the year

In many instances, prior year figures are not comparable For example, 1996 turnover includes tobacco interests for the first half only It also includes a full year's consolidation of Metkor and Dorbyl, subsidiaries from April 1995 when Remgro exercised pre-emptive rights to raise its stake in Metkor to 75,7%, buying 25,8% for R101m

The only dim spot is the dip in contribution to net income from industrial interests, which fell 27,6% to R106m Main culprit is Huntcor and its unhappy, loss-making Rainbow Chicken

Mining interests (Gold Fields, Gencor and TransHex) showed a strong 27,5% improvement to R246m, as did financial services (Absa and Sage), which grew net income 30% to R117m

STILL SMOKING

Year to March 31	1995	1996
Turnover (Rbn)	5,37	7,36
Operating income (Rbn)	1,39	1,27
Attributable (Rm)	949	1 481
Earnings (c)†	222	284
Dividends (c)	49,96	62,45

† Before exceptional items

Corporate finance, which includes Vodacom, Medi-Clinic and some foreign investments, nearly doubled to R207m

With the obvious exceptions of Huntcor and Rainbow, better results from nontobacco interests go some way towards answering an old criticism that Remgro does not get much quality of earnings outside tobacco

The improvement here — and the longer-term possibility that Huntcor will recover, as well as future benefits of foreign currency earnings from the merged tobacco operations — point to sustainable earnings growth this year

Remgro will probably grow earnings by a similar 28% this year An historic p e of 14,2, below the sector average, offers value, and even more so as the prospective p e unwinds to about 11,4 It's also possible that the rand hedge element is not fully in the price *Shaun Harris*

RICHEMONT (798) FM 5/7/96

A RERATED BLUE CHIP

Core holdings in tobacco (66,7% of Rothmans International) and luxury goods (70% of Vendôme) brought sound growth But growing losses from the Swiss-based group's 50%-owned international pay-TV operator NetHold took £46,3m off operating profit

MD Johann Rupert expects operating losses from media interests to rise this year, which raises the risk profile of the share But to put this in perspective, Rupert points out that Richemont spends more on advertising and marketing tobacco and luxury goods in a year than the total investment in pay-TV

VINTAGE YEAR

Year to March 31	1995	1996
Turnover (£bn)	3,85	4,31
Operating income (£m)	688	799
Attributable (£m)	262	316
Earnings (£)	45,61	55,05
Dividends (£)	7	8

The above excludes exceptional items and goodwill amortisation

There has been a dramatic change to the balance sheet, cash-flush for several years Previous £1,22bn net liquid funds turned to net borrowings of £240m at the March year-end, mainly through the take-out of minorities in Rothmans International at a capital cost of £1,65bn

An additional £188m was injected into NetHold, partly offset by Richemont's strong cash-generating ability

Johann Rupert

Tobacco again proved the mainstay, growing turnover 11,3% to comprise two-thirds of group turnover of £4,31bn Operating profit from this source gained 20,5%, nearly 75% of the total

There has been a two-phase structural change to tobacco interests In July 1995, public minorities in Rothmans International were bought out Then in January, Richemont merged its tobacco interests with those of SA sibling Rembrandt, effectively diluting its interest in Rothmans International to 66,7%

World volumes of cigarette sales grew 2%, reflecting a strong dichotomy between lower volumes in regions such as Western Europe, Indonesia, Australia and SA, outweighed by gains in former Soviet Union countries, equatorial Africa, the Middle East, Vietnam, Malaysia and Canada

Apart from better volumes, margins benefited from price increases and exchange rate movements

Rupert won't offer a forecast on the industry this year, saying he does not like predictions and would rather be judged on results But the outlook for tobacco seems bullish

Volumes may not gain more than in financial 1996, but growth should be underpinned by price rises and the rationalisation of cost-savings

Turnover growth at Vendôme was slower, only 1,2% in Swiss francs, the reporting currency But after exchange rate movements, the increase in sterling was 12,8% to £1,47bn Operating profit grew at a marginally slower pace to £250m

Rupert says growth in sales revenue was mainly generated from Far East markets, while there was a decline in Europe and the Americas

Attention will probably remain focused on its media interests this year Rupert does not quantify the expected increase in operating losses from NetHold — one analyst believes it will not be more than 10% higher than the £46,3m absorbed by Richemont last year

That's a hard call and could depend on whether Richemont and its partners follow the global trend of linking up with a strategic international partner The optimistic view is that development costs and associated losses will peak this year, then fall — barring further acquisitions, NetHold could be producing profits by the end of the century

Subscriber growth has been impressive, increasing by 335 000 over the year to 2,7m subscribers in more than 50 countries, making NetHold the third largest pay-TV operator outside the US A new investment in a growth area was necessary for Richemont, and it could offer good returns It raises the risk of what has traditionally been a demure share

Earnings growth this year could exceed the 21% of financial 1996, possibly in the upper 20% range There's also the additional kick of the devalued rand and expected benefits from the merger of tobacco interests with Rembrandt

Much of this is already in the share price, up 70% in a year to a new high just off R70 But a forward p e ratio around 16-17 (historical 26,3) looks attractive for a rerating blue chip *Shaun Harris*

Tobacco curing

CT(BR)9/9/96 (198)

Françoise Botha

The irony of a company whose reputation has been built on its tobacco interests and has focussed investment in the healthcare sector will be lost on only a few people, but this is a route being taken by the Rembrandt Group

Medi-Clinic, the Rembrandt-controlled private hospital services group, is positioning itself to become the main player in the 25 000-bed private hospital market, following an acquisition trail that shows little sign of ending The company concluded two large deals this year, the purchase of Hydromed and the recently announced negotiations to buy 12 hospital properties from Southern Life and the Rembrandt Group They set the pace, but spectators are already speculating about what is next in line

Despite denials from Medi-Clinic and Clinic Holdings that a deal is on the table, watchers have kept their eyes firmly fixed on the company hoping they will pick up clues to further deals But in the year ahead operations could be consolidated and an internal expansion plan could be boosted

The hospital properties deal, estimated to be worth more than R200 million, is likely to improve margins after substantial rental savings Craig Tingle, the financial director, says the company is expected to save more than 90 percent of its rental payments after the deal The negotiations to settle the purchase price have not yet been completed.

"It will mostly be a paper transaction," he says, but he does not exclude the possibility that a portion could be paid in cash.

"Considering that interest rates are as high as they are and our paper has been rerated, a paper transaction makes sense," he says Medi-Clinic ordinary shares have traded sharply up over the past few weeks, increasing from R5,00 to R6,40 The net asset value of about R2 is expected to increase because of the property deal.

The only hospital that the group will continue to operate from rented premises is the Sanlam-owned Louis Leipoldt in Bellville The Louis Leipoldt accounts for 230 hospital beds of more than 3 700 and about 5 percent of the present rental expense

The company, which was founded in 1983 and first listed in 1986 with R170 million in R1 units of capital, has shown dramatic growth in assets over the 10 years At first, debentures issued privately and to institutions accounted for R80 million, with the balance of R90 million in ordinary shares Of this, Rembrandt held R85 million, or 50 percent of the units.

PRIVATE BEDS *South Africa's overburdened hospital system has given Medi-Clinic the ambition to become a leading player in the private hospital arena*

After the acquisitions of the Medicor hospital group at the beginning of last year, which increased bed space by 60 percent, and Hydromed, which added a further 700 beds, the group's issued share capital increased to 280 million units, including debentures. The Hydromed acquisition boosted the balance sheet by R230 million in capital, with no interest-bearing debt taken over.

But the company's 15 percent share of the private hospital bed space may not be making for a peaceful night's sleep The restless parent Rembrandt is undoubtedly hoping to take market share from its largest rival Clinic Holdings, which controls 3 600 beds excluding those held by the Hurwitz family in their private capacity

"We are not ruling out further acquisitions this year, if they make sense We are sitting with lots of possibilities that we will look at, but there is nothing on the table at the moment," says Tingle But further opportunities for expansion have been provided within the existing hospital operations Projects are under way to increase the number of general beds at four hospitals

Commenting on the joint venture with Afrox, concluded earlier this year, Tingle says it was "necessary footwork" and will position the company to provide services to the managed-care market The tie-up between the companies will provide improved computer systems and databases

South Africa may follow the example set by the United States in the rapid growth and market penetration of managed care, say industry specialists, but this would depend on the healthcare products launched on the market and their acceptance The footwork being done by service providers in the Clinic Holdings and Medi-Clinic stables indicates that the market leaders in private healthcare services are positioning themselves for an upswing in demand

Private healthcare, which is 90 percent funded by medical aid schemes, is expected to grow as more South Africans get better jobs and the level of medical support offered to a wider range of employees improves

Analysts say that the numbers opting for private care, and especially managed care, could surge over the next few years as more healthcare options become available But with a decrease in costs, service providers that are inefficient could see their own demise

Given that state hospitals are already showing signs of cracking under demand pressure, it seems that those who can afford to will opt for this route Tingle held back on saying that the hospitals in the group would aim for a slice of the managed-care market.

Apparently complacent about the source of future growth, Tingle said "The fundamentals of the business are correct There is a high enough component of people who will support the services for the time being"

Analysts say the share is still fairly priced on a price-to-earnings ratio of 17,2 against a sector average of 22,4 and offers some upside potential

New angle in investigation of tobacco firms

~~181~~ (198) CT(BR) 12/9/98

By Gail Appleson

New York — The US justice department has shifted its investigation of the tobacco industry to focus on broader allegations that it withheld information and lied to federal agencies, a source familiar with the investigation said late on Wednesday.

The investigation had previously centred on accusations that the heads of cigarette companies committed perjury when they testified before Congress in 1994 that nicotine is not addictive.

The source said that the change in focus would allow the department to bring charges against cigarette companies, not just individuals, for deceiving federal agencies.

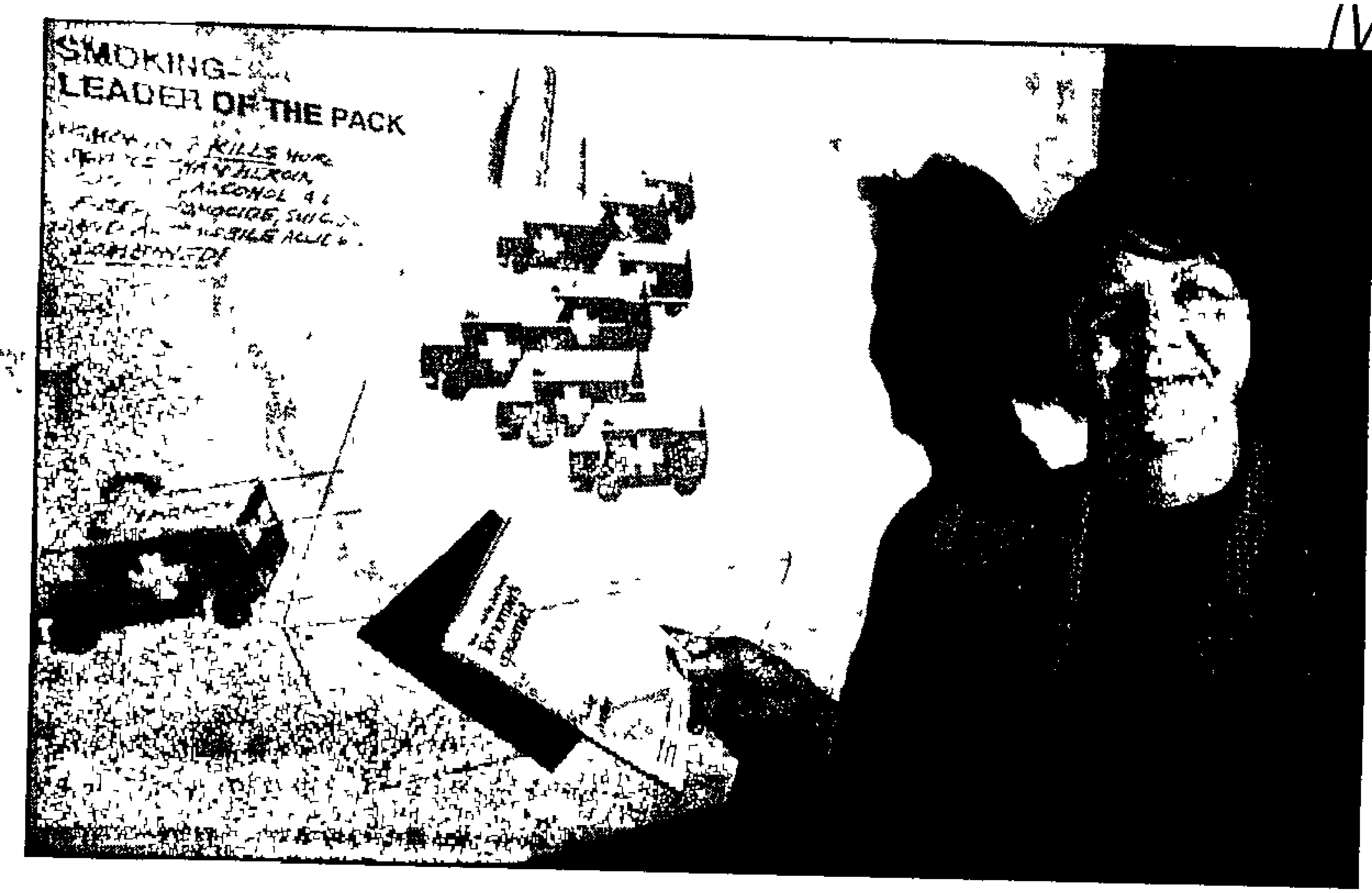
He said any charges against executives "would be chiefly of symbolic value because it would not necessarily do anything directly to change the conduct of the companies".

Tobacco companies maintain that nicotine is not addictive and deny breaking any laws.

The source said that while perjury is still part of the investigation, "it is farther down the totem pole now".

The investigation is believed to have been spurred by a 1994 document submitted to the department by Martin Meehan, a Democratic Party representative from Massachusetts, urging an inquiry into whether the tobacco industry illegally withheld information about the dangers of tobacco from Congress, federal agencies and the public — Reuter

Statistics show rise in SA smokers



PICTURE ROY WIGLEY, Staff Photographer

□ **PACK LEADER:** University of the Western Cape Public Health Promotion lecturer Blanche Tobias says World Health Organisation statistics reveal that smoking kills more people than heroin, cocaine, alcohol, aids, fires, homicide, suicide and automobile accidents combined.

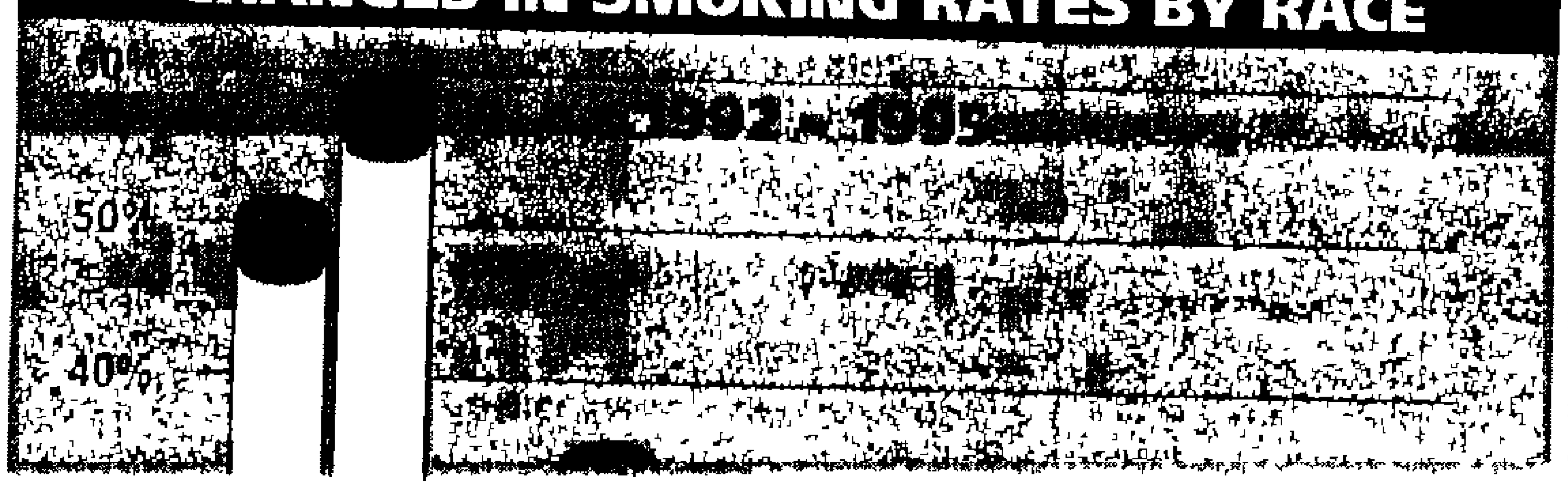
(198) ARG 20/7/96

■ More black and coloured people are smoking and there are fears that tobacco companies will increasingly target disadvantaged communities for cigarette advertising campaigns.

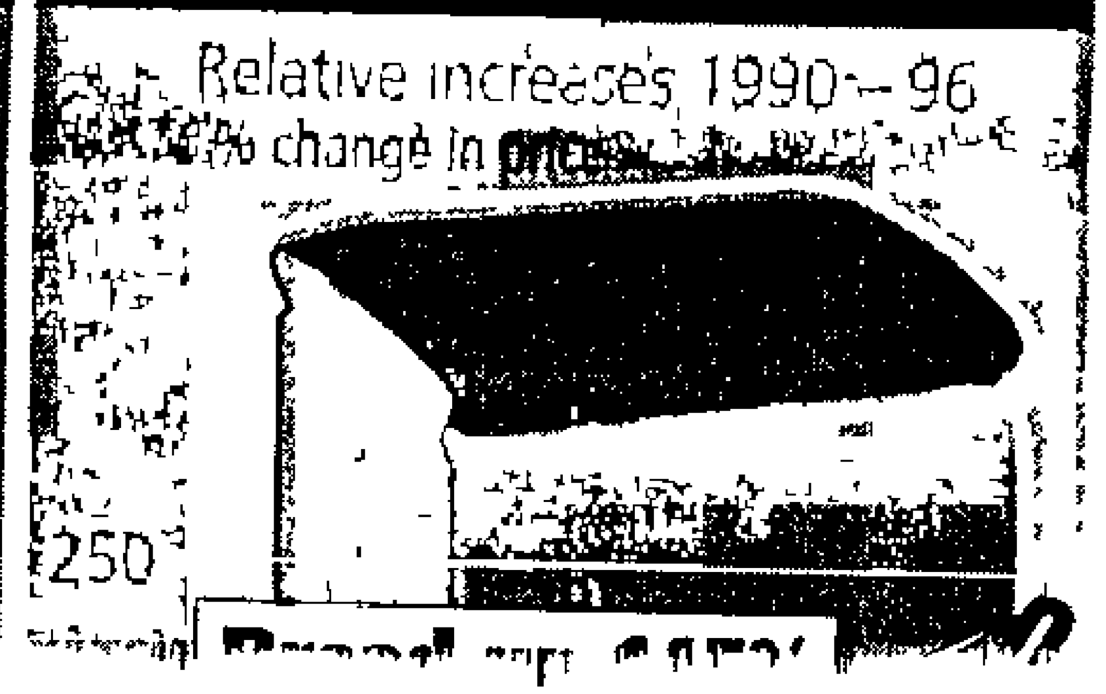
ADELE BALETA
Staff Reporter

MORE than half of all people in the Northern Cape are smokers and while overall three per-cent more South Africans are lighting up, the greatest increase in the number of people

CHANGES IN SMOKING RATES BY RACE



BREAD v CIGS



ADELE BALETA
Staff Reporter

MORE than half of all people in the Northern Cape are smokers and while overall three percent more South Africans are lighting up, the greatest increase in the number of people smoking is among the coloured population

University of the Western Cape Public Health Promotion lecturer Blanche Tobias said the latest trends recorded by a recent study found that from 1992 to 1995 the highest overall smoking rate was for the coloured population (59 percent), followed by Asians (36 percent), whites (35 percent) and blacks (31 percent).

The study by the Medical Research Council which surveyed 2 200 adults indicated that 34 percent of adult South Africans (seven million) were smokers Of these 52 percent were men and 17 percent women

The Northern Cape had the lion's share of smokers (55 percent) followed by the Western Cape (48 percent) and North West Province (46 percent).

Ms Tobias said the current demographic profile of the South African population had been shaped by racial divisions

"In South Africa there has been a close association between social class and racial classification with standards of health and longevity"

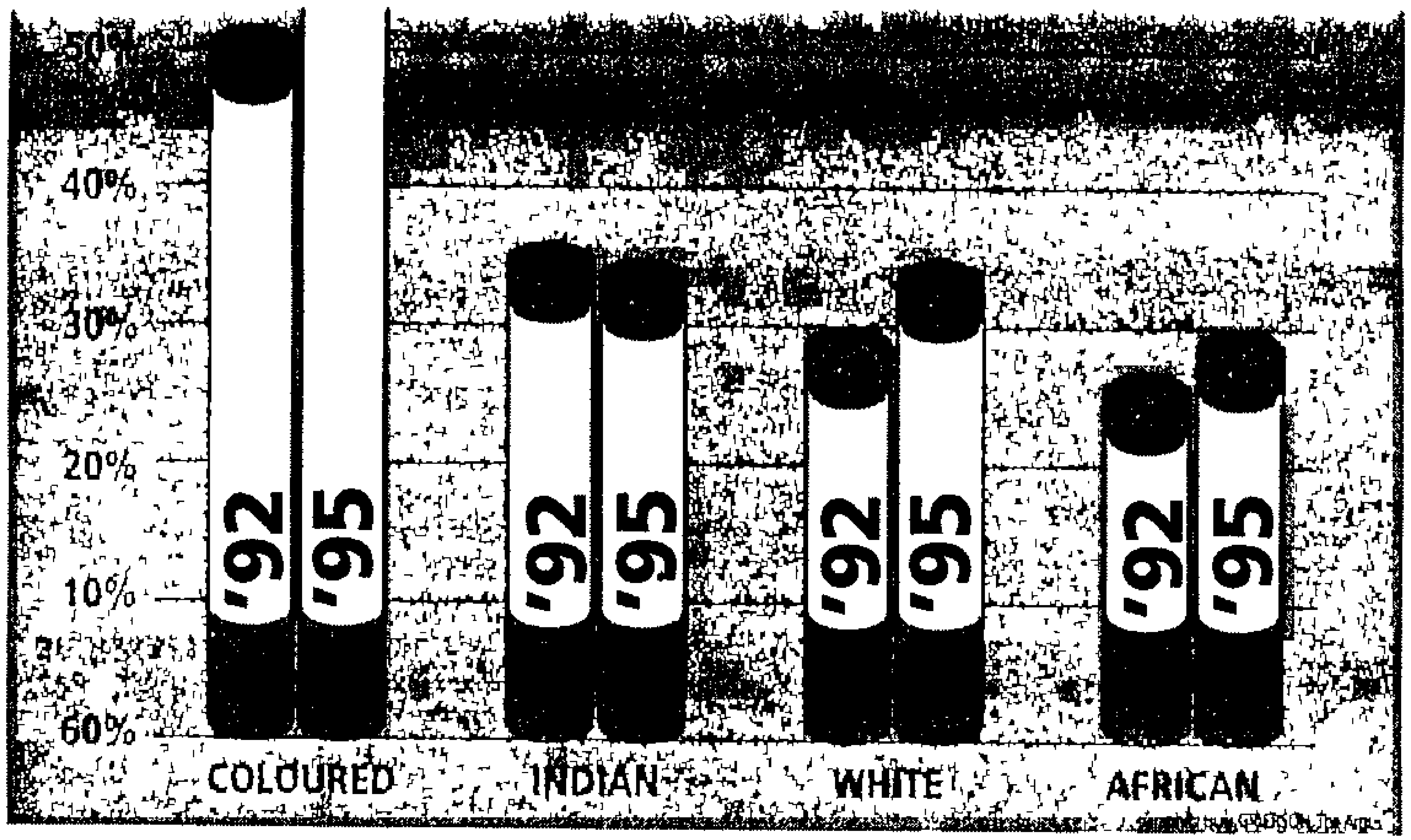
The MRC study and others had confirmed that there were increasing smoking prevalence rates among the coloured and black populations while rates among the white group were lowering

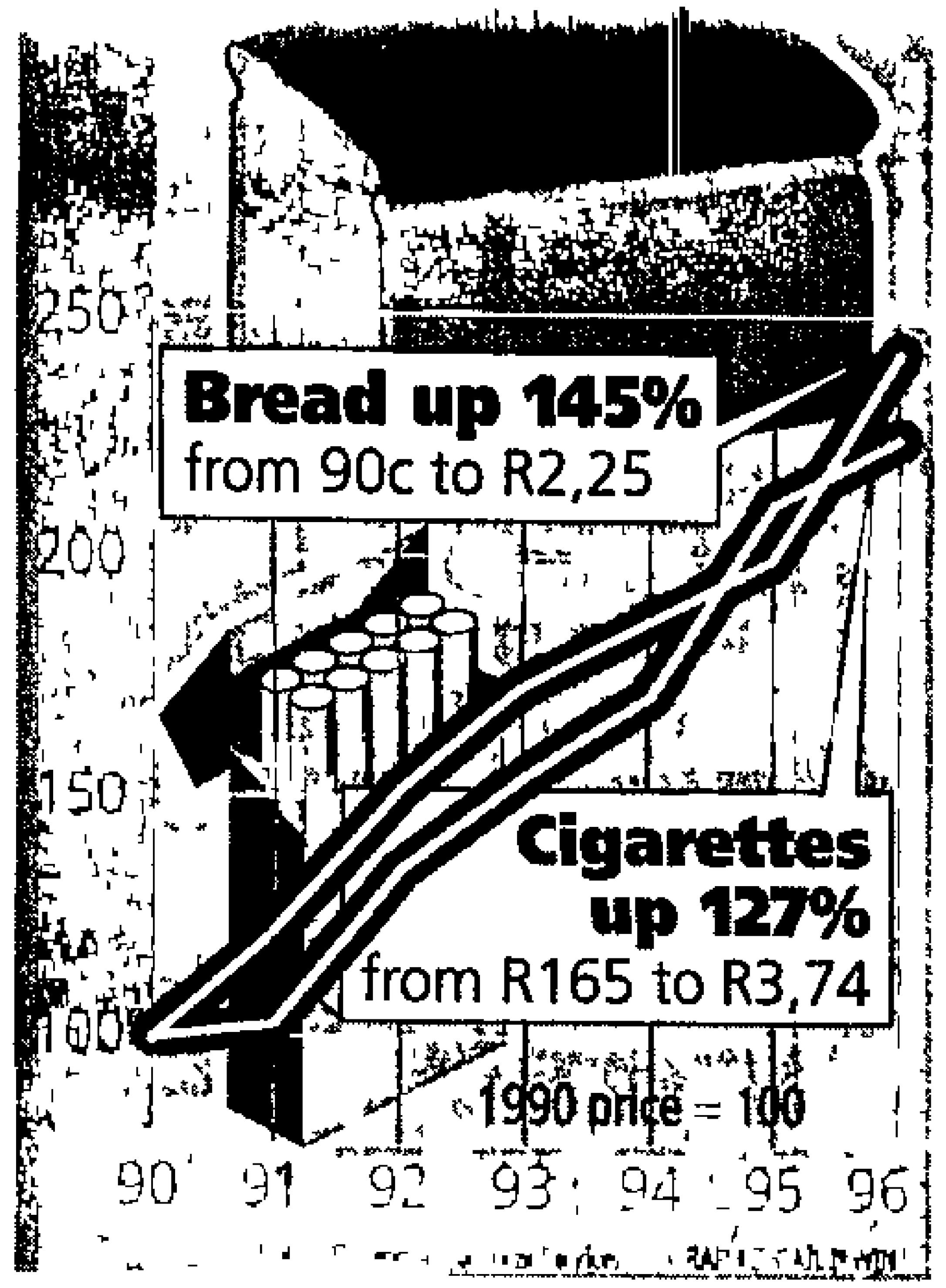
Comparison of trends in smoking prevalence from 1976 to 1990 indicated there had been an increase of 320 000 of new black smokers, 80 000 new coloured smokers and 40 000 new Asian smokers. There were 270 000 fewer White smokers than would have been expected if trends from 1976 continued.

"This decline in smoking among whites was for both men and women, with evidence of a decline among Asian men.

"In sharp contrast, smoking rates over the same period increased dramatically among coloured men and women and more slowly among black men. Less than 10 percent of black women smoke."

A disturbing trend was the increase in the number of pregnant coloured women who were smoking. Ms Tobias said there was a direct relationship between children who had asthma and parents who smoked





She said there was great concern that tobacco companies recently hit by controls on tobacco advertising would increasingly target disadvantaged communities through billboards and the print media and that greater emphasis would be given by the tobacco industry to supporting black arts, cultural and sports events

Studies of schoolchildren in the Western Cape indicated that smoking was more common among boys over the age of 15 years In a study carried out in an African township in Cape Town, 0,8 percent of girls and 23,7 percent of boys were smokers

She said the increase in smoking was a public health concern for both smokers and non-smokers as well as the economy

By 1990 over 25 000 tobacco-related deaths were being reported annually The economic costs exceeded R2,5 billion in terms of lost productivity due to premature death and hospitalisation

From 1968 to 1988 there was a 300 percent increase in lung cancer death rates in coloured women and a 100 percent increase with coloured men and white women

'Price of bread rising faster than the price of cigarettes'

THE Ministry of Finance has been lambasted for ignoring calls to increase substantially the excise tax rate on cigarettes while increasing the price of bread at a faster rate

National Council Against Smoking executive director Yussuf Saloojee said it was an "indictment" of the government's fiscal policy that the price of a staple food like bread had been allowed to increase faster than the price of a "harmful addictive drug like tobacco".

The retail price of bread, he said, had risen faster than the price of cigarettes in the past six years. Between 1990 and July 1996, the price of brown bread increased by 145 percent from 90 cents to R2,25 a loaf (this included the 10 percent increase in bread prices announced last week), while a packet of 20 cigarettes went up by 127 percent from R1 65 to R3,74 (retail price during May 1996)

Dr Saloojee said that in spite of recent excise tax increases, South Africa still has amongst the lowest tax rates on cigarettes in the world.

Taxes comprise 42 percent of the retail price of a packet of 20 cigarettes in South Africa compared to 86 percent in Denmark, 76 percent in the United Kingdom, and 73 percent in Germany.

"In fact, since the 1970's, the retail price of cigarettes has not kept up with inflation and the real price of cigarettes has dropped in South Africa."

Dr Saloojee said, in view of this, it was not clear why the ministry of finance had repeatedly ignored calls from the Medical Research Council, the National Council Against Smoking, the Cancer Association of South Africa and other health organisations to make real and substantial increases in the excise tax rate on cigarettes.

"Making food more expensive and harmful substances more affordable is a doubly unhealthy public policy," he said.

Comment from the ministry of finance was not available at the time of going to press.

Bread price rises outstrip cigarettes over last six years

(244)(808)(198)

Indictment of Government's fiscal policies, says anti-smoking chief

Star 22/7/96

By Janine Simon
Medical Correspondent

Bread price rises have outstripped those of cigarettes by 18 % over the past six years, yet the Government refuses to raise excise taxes on cigarettes, says Dr Yussuf Saloojee, executive director of the National Council Against Smoking.

Bread shot up 145% from 90 cents a loaf in 1990 to R2,25 now. Cigarettes rose 127% from R1,64 in 1990 to R3,74 now

"It's an indictment of Government fiscal policy. The price of staple food has been allowed to increase faster than that of a harmful addictive drug like tobacco," Saloojee said.

Despite recent increases, South Africa's taxes on cigarettes are among the lowest in the world, comprising only 42% of the retail price of a packet of 20, compared to 86% in Denmark, 76% in the UK and 73% in Germany.

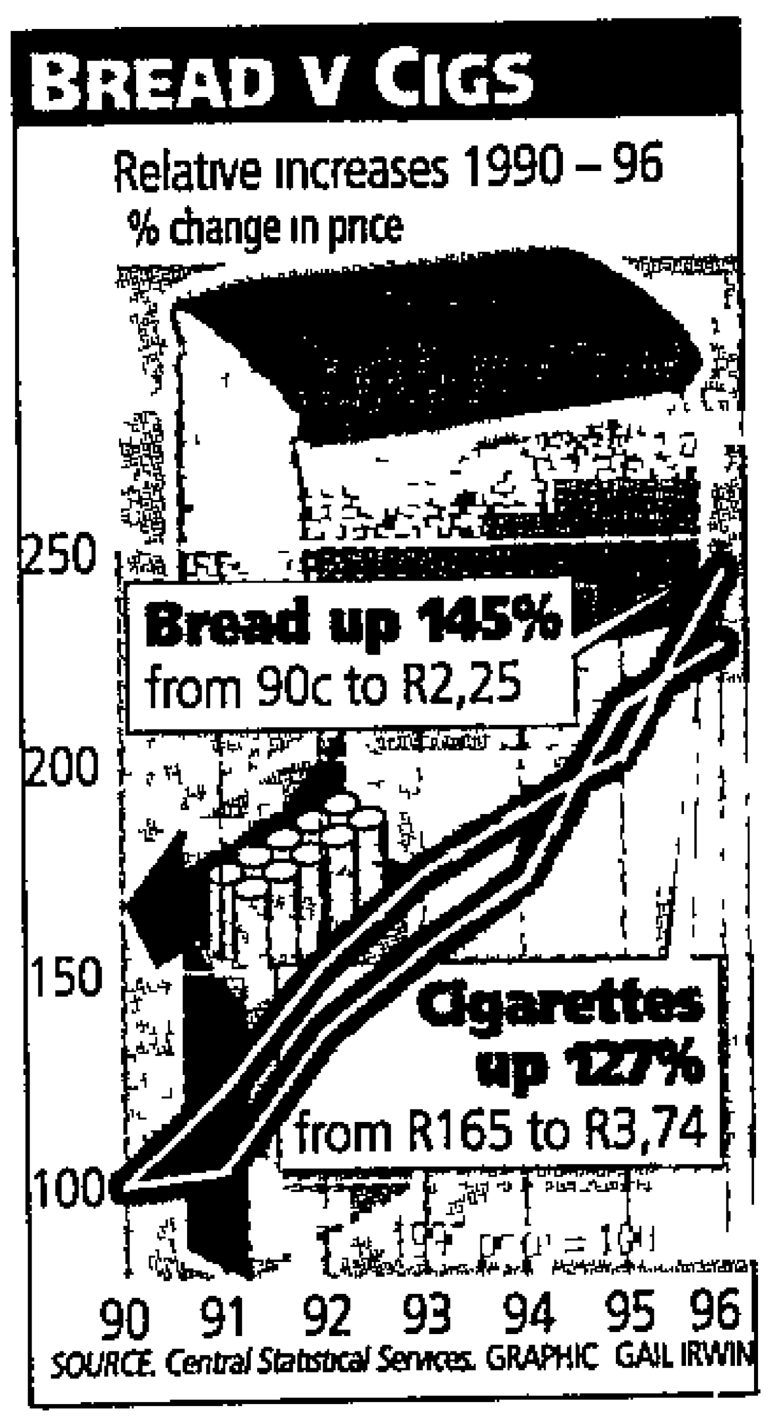
In 1960, excise taxes comprised 60% of the local retail price. Taking inflation into account, taxes comprised only 20% of retail price in 1990, Saloojee said.

Cigarette prices were directly related to consumption, he added.

In real terms the price dropped 37% between 1970 and 1989, while tobacco consumption rose more than 100% in the same period. The Government could raise R10-million for every one cent increase in excise tax, Saloojee said.

A 15 cent increase could set up a R150-million health promotion fund like that used in countries like Peru and Australia, and, for example, could easily take over the estimated R8-million tobacco companies currently spent on sports sponsorships.

The World Health Organisation estimates that by 2025, one in seven deaths will be caused by smoking-related illnesses. Seven million people will die in developing countries.



'Long future' for tobacco industry

BD 1/8/96 (198)

Samantha Sharpe

THE tobacco industry was destined for "a long and profitable future" despite the increasing pressure from anti-tobacco activists and legal suits, Rembrandt chairman Johann Rupert said in the tobacco group's latest annual report

Rupert said recent US legal findings, including the controversial Castano class action lawsuit, showed that there were still parties willing to put "common sense and logic before emotion and rhetoric"

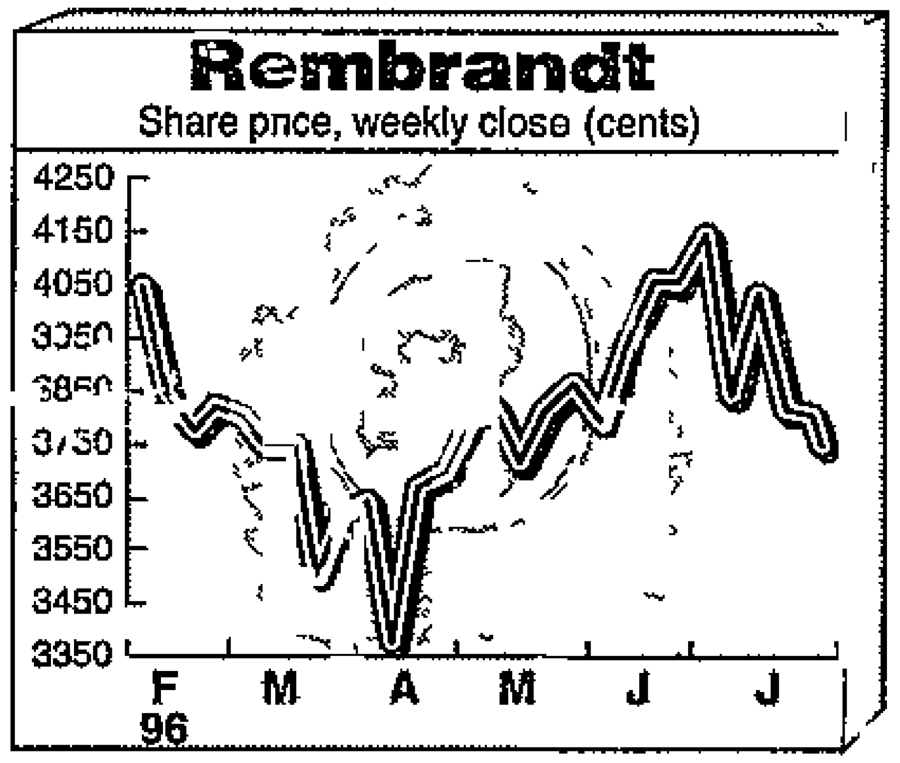
While the group's tobacco associate Rothmans International (RI) was not directly involved in US proceedings, all tobacco product liability actions against RI group companies would be "vigorously" defended.

Despite external pressures on the tobacco industry, world cigarette consumption had gone on growing at about 1% a year, and was currently about 5 400-billion cigarettes, he said

This boded well for earnings growth in future as more than 50% of group earnings derived from Rembrandt's tobacco and its wine and spirits wings

Consolidated Rembrandt earnings rose by 56,1% to 283,7c per share in the year to March, but these figures were distorted by exceptional items flowing from changes in accounting practices.

Earnings before exceptional items showed a 28% increase to 283,9c a share of which 54,4% was sourced from group tobacco and wine and spirit operations



After Rembrandt's merger last year of its tobacco interests — with offshore group Richemont — Rupert said exchange rates would have a big say in deciding the rand level of group tobacco earnings.

"The merger has significant strategic benefits and was the most advantageous route by which the group could expand its tobacco business internationally .. SA is also a potential source of lower cost manufacture for the RI group."

While Rembrandt's industrial interests showed a 27,4% slide in their contribution to group earnings before exceptional items to R106m — 7% of total earnings — 'this could largely be ascribed to a disappointing second-half showing from Hunt Leuchars & Hepburn Holdings (HL&H) and net attributable loss from Lenco

While HL&H expected improved results next year "these will still fall well short of acceptable levels," Rupert said

Earning contributions from Rembrandt's petrochemical interests were also lower than at the same time last year.

"The aggregate dividends from Engen, Malbak and Sappi amounted to R31m against R27m on the previous financial year," Rupert said

Rupert upbeat about tobacco

(198) CT(BR) 1/8/96

By Marc Hasenfuss

Cape Town — Rembrandt, which earns more than half its bottom-line profit from manufacturing and marketing cigarettes, remains confident that the tobacco industry will enjoy a "long and profitable future"

In his annual report Johann Rupert, the chairman of Rembrandt, said that Rothmans International, the company's 33 percent-held tobacco associate, had strengthened its position and would remain a major player in the industry in the long term

"Despite external pressures on the tobacco industry, world cigarette consumption continues to grow at around 1 percent a year and at present stands at about 5 400 billion cigarettes"

Rupert noted that, despite continuing external pressure from both tobacco control activists and product liability plaintiffs, the industry had managed some positive results in terms of government and public policy

He said the overturning of the restrictive Tobacco Products Control Act — which banned most forms of tobacco advertising — by the Supreme Court of Canada demonstrated that the industry's rights to commercial free speech could be upheld in the courts.

UP IN SMOKE *Johann Rupert sees "a long and profitable future" for the cigarette industry*

In Canada Rothmans International operates through a 71 percent shareholding in its listed company Rothmans, which in turn holds 60 percent of Rothmans Benson & Hedges, which is an equity partnership with Philip Morris

Rothman International is the second-largest cigarette manufacturer in Canada.

Rupert said the Canadian Tobacco Manufacturers' Council had developed a voluntary packaging and advertising code which allowed tobacco companies to market their products reasonably and at the same time meeting the criteria suggested by the Canadian Supreme Court

He noted that market-share declines in Canada had been arrested by means of brand initiatives

Rupert was also heartened by the denial of the certification of the Castano class-action lawsuit in the United States

The case, brought by a Louisana-based anti-smoking lobby, was based on a claim that tobacco companies had failed to inform smokers that nicotine was addictive

"While the Rothmans International group is not directly involved in the US proceedings, all tobacco product liability actions will be defended vigorously," he said He said the courts reflected the group's position that the company bore no liability in such cases

Rupert said that the group would continue to oppose arbitrary and unjustified increases in levels of tobacco taxation

"Rothmans International will defend strongly the rights and freedoms of those adults who choose to smoke its products and will oppose any proposals to further reduce commercial freedoms or to restrict the use of its trade marks

☐ See Business Watch

Vodacom impresses Rembrandt

By Marc Hasenfuss

Cape Town — Vodacom, the cellular network operator in which Rembrandt has a 18,5 percent stake, has reached profitability sooner than expected, but dividends are still on hold

Johann Rupert, the chairman of Rembrandt, said in his annual report that the cellular telephone industry continued to grow much faster than original market expectations in the year to March 31

"The strong growth has resulted in Vodacom reaching profitability much sooner than expected"

But Rupert cautioned that the payment of dividends by Vodacom would be delayed by increased investment in infrastructure to stimulate growth and bolster the network quality and service

In a post balance sheet event, Rembrandt acquired a 50 percent interest in Tracker Network, which specialises in recovering stolen vehicles, for about R25 million

Rupert said Tracker would be fully operational by September and was expected to contribute to the combating of vehicle theft and hijackings

Smoking vigilantes have not butted Rembrandt's results

~~184~~ (198) CT (BR) 1/8/96

BUSINESS WATCH

Edited by

John Söderlund

The tobacco industry has managed to stave off a number of legal actions from the anti-smoking vigilante groups

Ironically, the anti-tobacco lobby has taken none of the profit spark away from Rembrandt's cigarette manufacturing and marketing business. In fact, Johann Rupert came out blazing in his chairman's report released this week, highlighting the tobacco industry's ability to stave off legal actions from anti-smoking vigilante groups.

Rembrandt is still overly reliant on tobacco, with more than half of its earnings derived from that source But down-rating the share because of increased pressure from zealous anti-smoking groups would be foolish

South African cigarette sales have dipped, partly because of increased excise, but indications in Rembrandt's latest report are that the tobacco business will continue to expand internationally and remain the mainstay of the group for years to come.

Rembrandt, through Rothmans International Holdings, owns 33 cigarette factories and employs about 19 000 The company's brands are sold in 160 countries with yearly sales of 200 billion cigarettes

Rembrandt is still a growing player if one considers the industry's sales volume of 4 500 billion cigarettes Footholds have been established in newer markets such as the former Soviet Union, Poland, equatorial Africa, the Middle East, Vietnam, Malaysia, Greece and South Korea. Rothmans is also continuing to develop its business in China, the world's largest tobacco market.

The emerging markets, where Rembrandt has a sizeable presence, are unlikely to be as dramatically affected by anti-tobacco campaigners as many first-world markets.

Rupert's bullish outlook for the tobacco industry, which he believes will have 'a "long and profitable future", is understandable given his success in weathering the storm thus far.

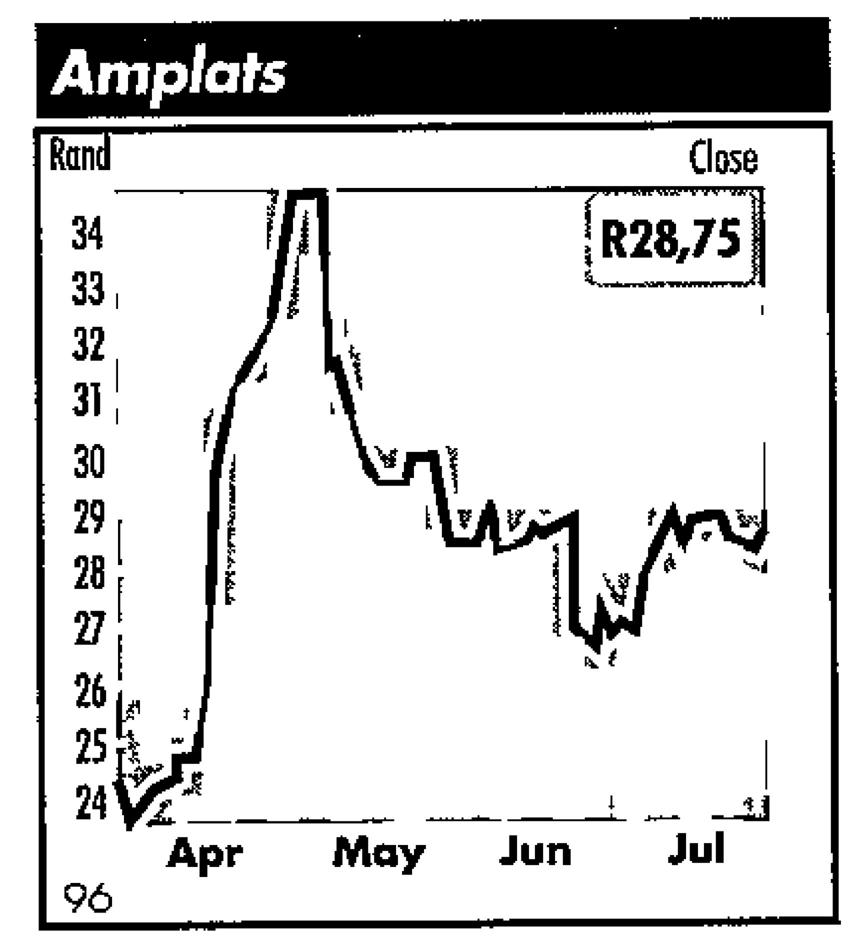
Amplats

It is difficult to get too worked up over the Amplats results, largely because of unanswered questions that will become clearer in the coming year.

The platinum company came out of its recent strikes with lower losses than had been estimated. Production is back up to 95 percent of normal and the company is estimating its losses at 97 000 refined ounces, well below the 120 000 to 150 000 ounces estimated during the strike.

World demand for platinum has been increasing. It rose 5 percent last year, but the world surplus of platinum is not expected to disappear in the short term One of the big imponderables is the sale of Russian stockpiles Amplats is perhaps erring on the side of caution in its estimates and its dismissal of speculation that the Russian stockpiles might run out, leaving the market with a shortfall of 600 000 ounces a year.

Barry Davison, the chairman of Amplats, said he expected the Russians to



keep selling for three to four years and that they were nowhere near the bottom of their stockpile.

Warning of continued labour volatility, the unquantified effects of the strike in early July and no real improvements in dollar prices for platinum group metals he said that Amplats earnings for the next financial year would be similar to this year's earnings

With this sort of mixed outlook, it is no wonder that analysts were left ambivalent about whether the shares' recent softer trend was justified

But with the market muscle and strong long-term prospects that Amplats enjoys, and yesterday's co-incidental fall in the rand against the dollar, investors probably cannot go too far wrong buying at this level, despite all the vagaries of the platinum market in the year ahead

Pepsi

Two years ago, Pepsi-Cola's New Age Beverages began operations in South Africa with one bottling line on a small piece of real estate in Germiston That property has since expanded to cover 17 acres with four bottling plants, one of Pepsi's top 10 plants in the world, according to Ian Wilson, the New Age chairman. Now, a new plant has just been completed in Durban.

The scepticism with which Pepsi's re-entry to South Africa was greeted has been dashed. "We've exceeded even our own optimistic expectations," Wilson said yesterday, in terms of Pepsi's penetration of the Gauteng market, its production capacity and its management capability

Pepsi's commitment to South Africa has now reached significant proportions. It has invested hundreds of millions in Simba and the KFC Pizza Hut chain, both of which could follow New Age to the JSE in 1998. Prospective investors should keep their powder dry.

Persetel

Persetel has done little wrong for as long as investors like to remember. So it has been rewarded by the market, with its share price rising from under R4 to more than R18 in less than two years Everyone who has been involved with the share should also have little to complain about. It paid for its 40 percent stake in Comparex, the highly promising German firm, with shares when they stood at R10,50 each The sellers, BASF, also have no cause to complain about the deal they got, with their capital having grown by more than 80 percent in less than six months.

The good news is not over. Persetel is expected to produce compound yearly earnings growth of about 35 percent in the next couple of years, putting its forward price-earnings multiple on about 21 times. That is a very humble number when compared with Persetel's peers in the electronics sector and suggests the current dividend yield of about 1 percent should not deter those who have already missed out

Questions over cigarette price hikes

(198)

STAFF REPORTER

Star 7/8/96

The Competition Board may look into price increases of about 8% by South Africa's major cigarette companies within days of each other.

A box of 20 cigarettes will now cost R4,30 on average, up about 30c, and a pack of 30 will cost about R6,45, an increase of about 45c.

Although many small retailers adjusted their prices yesterday, smokers who buy from major stores can expect to only pay the higher prices once the old stock has run out

Rembrandt Tobacco Corporation increased its cigarette prices by 8,1% on Friday. A United Tobacco Company spokesman said it had decided to follow suit on Monday.

Dr Pierre Brooks, chairman of the Competitions Board, said it was often very difficult to prove collusion.

"Unilateral independent movement does not necessarily mean collusion, but the case may warrant further attention from the board once we have the facts," he added.

REMBRANDT GROUP

DIRECTION REMAINS UNCLEAR

(198) FM 9/8/96

- **ACTIVITIES** *Core activity — cigarette manufacture and marketing Other interests include banking and financial services, life assurance, engineering, medical services, mining, petrochemicals, cellular communications, food, wine and spirits*
- **CONTROL** *Rupert and Hertzog families*
- **CHAIRMAN** *J Rupert MD M H Visser*
- **CAPITAL STRUCTURE** *522m ords Market capitalisation R19,3bn*
- **SHARE MARKET** *Price R37 Yields 1,7% on dividend, 7,7% on earnings, p e ratio, 13,0, cover, 4,5 12-month high, R42, low, R25,75 Trading volume last quarter, 10,5m shares*

Year to March 31	'93	'94	'95	†'96
ST debt (Rm)	71	79	85	140
LT debt (Rm)	293	604	648	744
Shareholders' interest	—	0,84	0,88	0,93
Int & leasing cover	—	18,9	16,0	6,8
Return on cap (%)	—	14,9	12,2	4,1
Turnover (Rm)	4 349	4 701	5 365	7 356
Pre-int profit (Rm)	1 321	1 491	1 584	1 106
Pre-int margin (%)	n/a	27,8	26,6	11,9
Earnings (c)	182,1	200,9	221,8	*283,7
Dividends (c)	36,2	‡43,4	50,0	62,5
Tangible NAV (c)	1 343	1 707	2 101	4 625

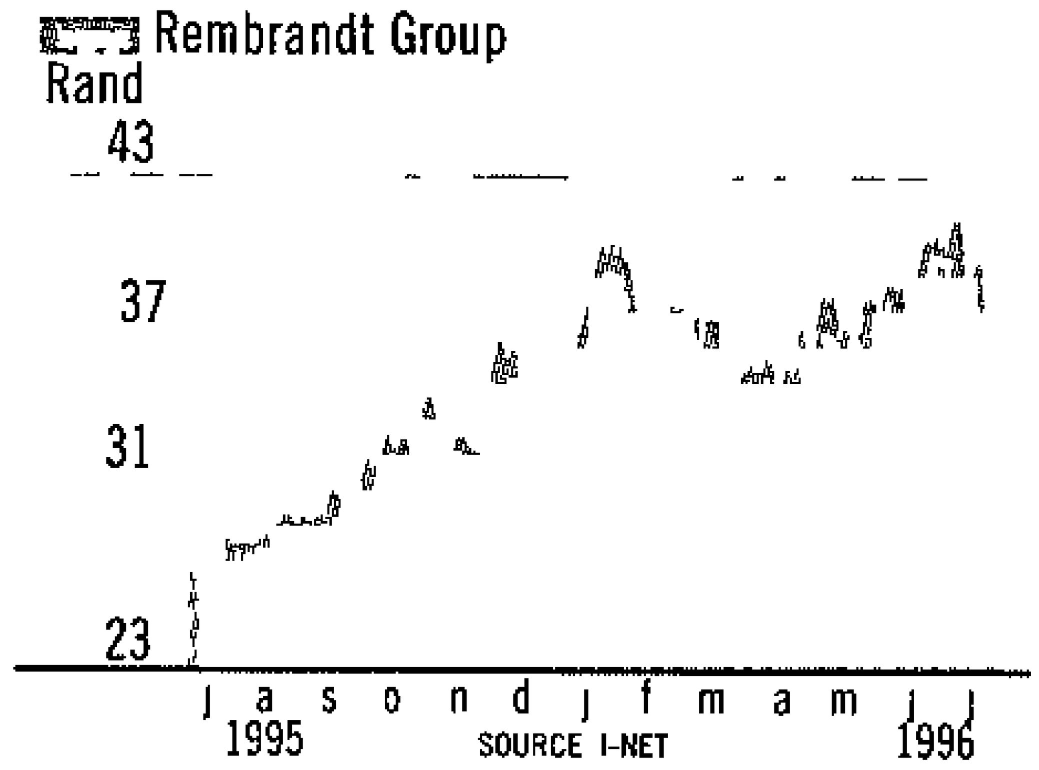
† Figures for the year-end March 31 1996 stated in accordance with accounting statement AC 103 (revised) The comparative figures are not, * Earnings after exceptional items, ‡ Excludes special dividend of 14,5c

The most significant event for Rembrandt Group (Remgro) in financial 1996 was the merger of its tobacco interests with those of Richemont subsidiary Rothmans International with effect from October 1 This transaction could be viewed as another step in a strategy to internationalise as much of Remgro's earnings as possible

It was important not only because it brought together the respective tobacco interests of the two groups That supposedly creates some synergies But it also enhances substantially the rand hedge element for Remgro's SA shareholders with a reciprocally negative effect on Richemont

Rothmans International Holdings SA (RIH) was incorporated in Luxembourg to serve as the holding company for the tobacco interests of Remgro and Richemont Relative values of £1,5bn for Remgro's and £3bn for Richemont's holdings leave Remgro owning a third and Richement two-thirds of RIH

Richemont management has said the combined earnings from tobacco will be about £810m before tax for the 1996 financial year Attributable earnings would be about £430m, with Remgro's share roughly £140m An earnings multiple of 10 gives a capital value of £1,4bn for Remgro's stake At R7 to £1, the market is capitalising it at about R9,8bn, about half of Remgro's current market capitalisation of R20bn A year ago, the *FM* suggested the market was capitalising Remgro's tobacco interests at about R3,6bn (*Companies* July 28 1995)



The difference arises mainly from goodwill brought to account for the merger The deal was struck at an exchange rate of about R5,78 to £1 This goodwill is also largely responsible for the 120% leap in Remgro's net asset value to R46,25 a share

The group's financial performance last year was impressive, marked by a 56% surge in attributable earnings But this gain, viewed by itself, is misleading The merger led to a R52m reduction in after-tax earnings but a R441m increase in equity-adjusted earnings The latter includes the share of net income retained by associated companies

The largest source of income is the Trademark Group, incorporating all tobacco interests, as well as 30% interests in Stellenbosch Farmers' Winery and Distillers Corp, the two leading wine and spirit companies in SA Earnings after exceptional items rose 54,1% to R801m or 44,6% of the whole

Mining interests improved earnings after exceptional items by 250% to R259m, 17,5% of the total This increase was off a low base, though

Gencor achieved strong earnings in its first half to December 31 but its growth is likely to be constrained in the second half, partly because of difficulties at Implats and generally weaker commodity prices The contribution from Gold Fields of SA fell by 12%

Industrial interests saw a 25,2% drop in earnings after exceptional items to R104m, largely because of the R67m loss at subsidiary Hunt Leuchars & Hepburn Metkor lifted earnings by 14,5%, Dorbyl by 14,9%, Lenco lost a net attributable R22m In the petrochemical interests, earnings from Engen and Total fell

Earnings from Remgro's financial services investments jumped 48,3% to R132m Absa's was up 49,9%, Sage Group's fully diluted headline EPS by 27,9%

Corporate and other interests rose 99% to R185m after exceptionals

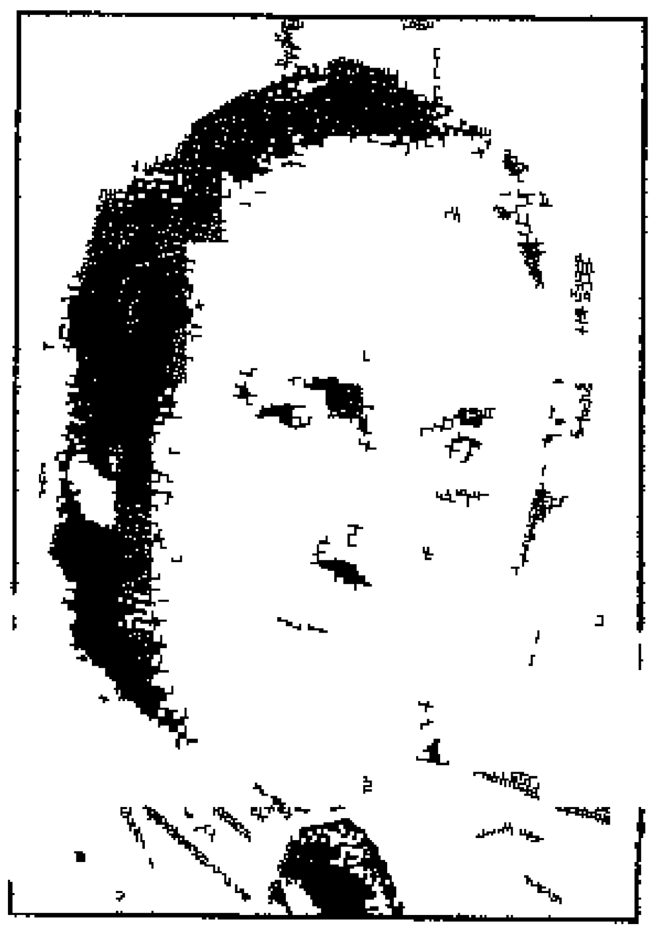
There is speculation in the market that there could be further steps in a strategy to internationalise Remgro's assets This could, for example, involve the sale of the SA tobacco interests to Richemont, with Remgro shareholders receiving shares in Richemont

Whether or not there is any such plan, there remain questions about the future direction of Remgro It retains a large and diversified portfolio of mainly passive investments, as well as almost R1,5bn in cash and liquid assets The profitability of underperformers such as Absa and Dorbyl is improving but others such as Gold Fields, HLH and Rainbow remain uninspiring

Meanwhile, the case for investing in Remgro rather than in Richemont — a pure rand hedge — does not appear to be compelling *Gerald Hirshon* predicted last December, observes CE Trevor Munday

"Considering that Polifin has been through a year of enormous change, with the acquisition of SA Cyanamid and the Midland Restructuring Project (MRP) being commissioned — plus some big cyclical shifts in the international markets — we feel reasonably pleased," he says

Turnover grew only 7% to R3,2bn and operating margins softened to 23% in the wake of lower product prices (down 30%-50%) and decreasing sales in the first half A stronger second half, with China back in the market after a temporary withdrawal and prices creeping back up, kept operating income growth positive



Trevor Munday

A drop in the effective tax rate to 32%, plus significantly lower finance charges resulted in a 28% gain in attributable income to R454m

Strong cash generation allowed the repayment of R194m in long-term borrowings Munday says short-term debt, which stood at R135m at year-end, should be retired out of cash flow by the interim stage

The net effect on the balance sheet is to reduce net borrowings by R60m and cut the gearing to 26%

Completion of the R646m MRP project (three months ahead of schedule and within budget) should see an estimated annual cash cost savings of R150m kick in for the first time in 1997

After deducting a higher depreciation charge, this should contribute as much

DELIVERING THE GOODS

Year to June 25	1995	1996
Turnover (Rm)	2 994	3 209
Operating income (Rm)	730	742
Attributable (Rm)	354	454
Earnings (c)	64	83
Dividends (c)	N/A	27

as 12c to EPS next year

Other major capex projects included the purchase of SA Cyanamid and the upgrading of business information systems to run SAP R3 software

With another R1bn earmarked for upgrading existing facilities and developing new ones over the next few years, "the process of change will continue," says Munday

Phase one of the new polypropylene plant at Secunda is under way and the next two years will also see the group concentrate on polyethylene upgrading projects

Munday says international polymer prices are stable but are expected to ease off along with world oil prices

The Board on Tariffs & Trade has responded to Polifin's complaint of dumping by raising tariffs on the offending countries' products

Munday dismisses accusations of bullying the market "Anyone who gets involved in antidumping can be accused of bullying SA is an attractive country for dumping and when this happens, it undoubtedly hurts us "

A lack of market confidence saw the Polifin share drop precipitately to 500c late last year, though it has since recovered to 786c

Assuming earnings for next year of about 25%, a forward p e of 7,6 makes it look inexpensive — a worthwhile risk *Margaret-Anne Halse*

PROTEA FURNISHERS

READY FOR EXPANSION

FM 9/8/96

This is Profurn's first half-year results since trading as a cash retail store It departed from the furniture sector's traditional credit business when it sold its debtors' book in SA to Firstpref at the start of 1996

This makes comparisons with 1995's interim period difficult, though management reckons the new structure is working well and that its forecast 35% increase in headline EPS for the year is within reach

The new method of doing business did result in some transitional problems in the branches Walker says these have now been resolved Credit staff now answer to Firstpref, which pays Profurn the cash price of sales each month

This also means Firstpref profits from the finance charges on credit purchase deals, another complication in comparing 1995 and 1996s interim periods Theoretically, Profurn's deferred tax provision on credit sales becomes a liability from this year But financial director Gavin Walker says alternative timing differences will lead to equivalent benefits

MORE PROFIT FROM TRADING

Six months to	Jun 30 1995	Dec 31 1995	Jun 30 1996
Turnover (Rm)	145,0	226,4	174,6
Operating income (Rm)	14,5	41 2	17,2
Attributable (Rm)	8 1	14,0	11,4
Earnings (c)	1,9	5,1	2,4

† Diluted headline earnings

Also, changes in neighbouring State tax policies — in which Profurn's Supreme chain operates — led to a reduction of Profurn's effective tax rate last year relative to the first half of 1996 Walker reckons the disparity won't be as material for the full trading year Another gain is the reduced interest bill, Profurn has paid off borrowings and converted debentures

Walker says despite initial operational hiccups, the relationship with Firstpref is going well "Soon Firstpref will introduce no-deposit business, in line with many competitors," he says "It has increased the repayment period of Profurn customers to the maximum of two years in some areas For VIP customers, it has reduced the percentage of monthly installments required to pay off goods in relation to their incomes "

He adds that in tough retail conditions this is making it easier to conclude deals with customers

One of the main aims of the debtors' book disposal was to use the cash to fund expansion The group is committed to opening 50 stores this year, 21 had been opened by end-July Surplus funds of about R100m are invested in the money market

For the record, turnover increased by 20% to R174,6m compared with the same period last year Walker says the cash selling price of sales increased by 38% for the same period Half-year attributable earnings climbed by 42%, and diluted headline EPS rose by about 26% The second half is traditionally the stronger trading period

Trading at 105c on a p e ratio of 12,5 (sector average 11,6), Profurn isn't cheap If the directors are accurate in their EPS forecast of 9,45c for the year, the counter's forward p e is 11,1 On these figures, share price growth will probably be modest but the fundamentals appear sound *Michelle Joubert*

Taxman's growing cut chokes beer and cigarette sales

(198)

ST (BT) 11/8/96

SALES of cigarettes and beer, two favourite targets for the taxman in the annual Budget, took a dive early this year as consumers reined in spending on luxury items

One company to feel the pinch was CTP, a JSE-listed subsidiary of Caxton CTP is one of the country's largest printing and packaging groups and a supplier of printed packaging to the beer and cigarette industries

"The fall-off in demand for beer and cigarettes over the last six to eight weeks is a reflection of the general weakness in the economy," says Howard Becker, marketing director of CTP

"We have been left holding large stocks of finished goods on behalf of customers with few new orders coming in However, this is not unusual in this market and we expect to see orders picking up again later in the year"

Despite rising raw material costs, printers responded to weaker market conditions and spare plant capacity by undercutting each other on price Printers are finding it difficult to pass on raw material price increases to customers, who themselves are under pressure from consumers to absorb cost increases CTP's board supplier, Mondi, raised prices last year to bring local prices more into line with those overseas, and possible further price increases are expected this year Becker says the company was forced to absorb a portion of all cost increases to remain competitive.

Denis Backman, CTP's managing director, sees little immediate prospect for improvement in the market "With interest rates going up, the petrol price rising and consumer confidence taking a knock with the collapse of the rand earlier in the year, people are holding back on spending We are usually the first to feel it"

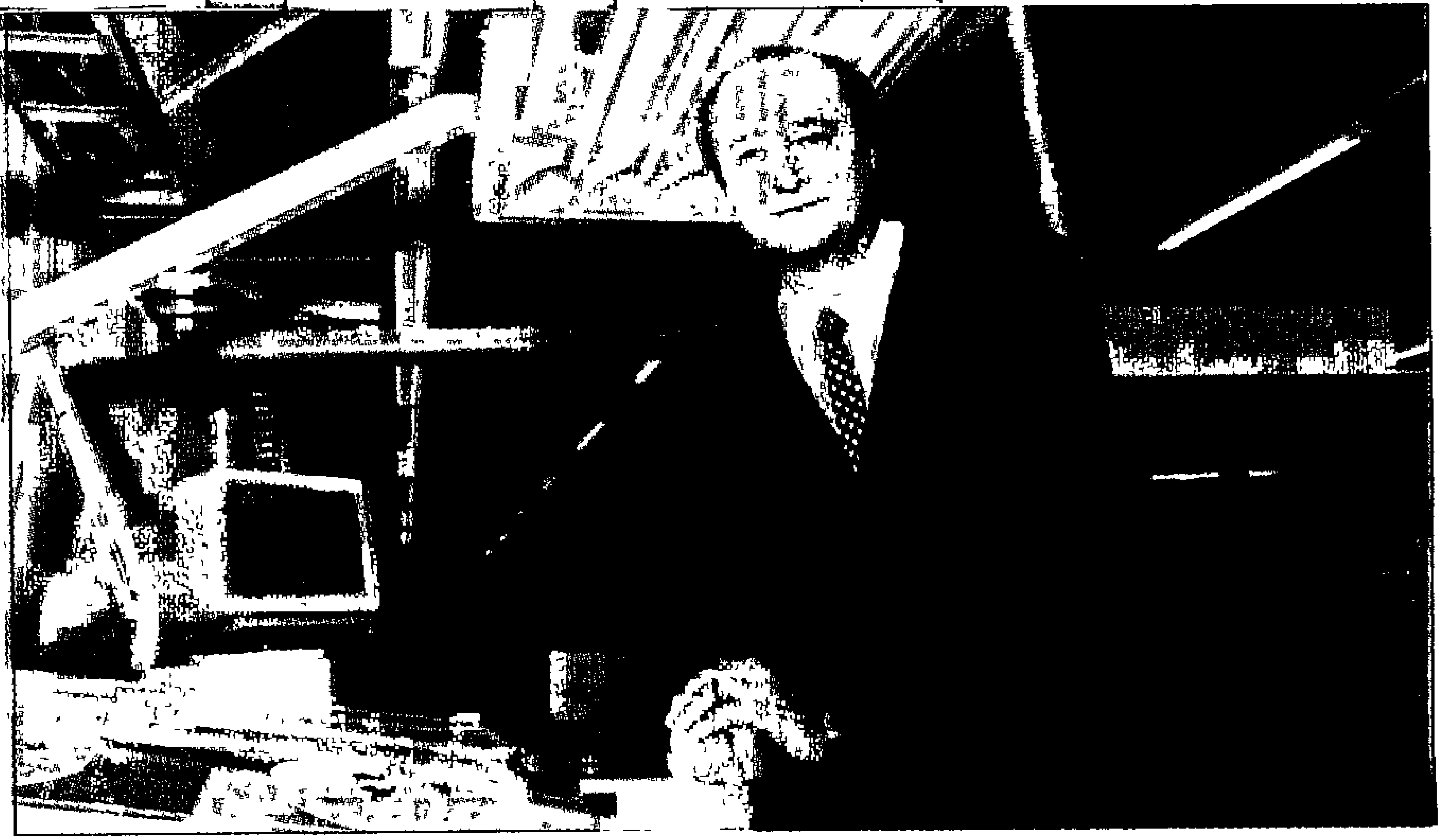
CTP recently invested R17-million in new state-of-the-art Roland printing presses as part of its plant modernisation programme The new presses allow it to handle larger consumer packaging orders The company sources some of its board requirements from overseas suppliers, but the bulk is supplied by Mondi Backman says it is important to support local board producers so as to secure allocations when local product is in short supply

The weak rand has done little to improve export competitiveness. High input costs and wafer-thin margins make it difficult to export at a reasonable return

"Packaging is a low-value bulk material and transport costs wipe out much of the benefits of the weak rand," says Backman

The company also is a major supplier of greetings cards With Christmas fast approaching, the company is already busy fulfilling orders for the end of the year Sister company Artone Press supplies printed booklets for most of the compact discs sold in South Africa

CTP prints knock-and-drop newspapers on behalf of parent company, Caxton, and sold its stationary business to Waltons last year The company has an outstanding profit record, doubling earnings per share and dividends per share over the last five years Results for the year to March 1996 show turnover up 27,5% to R965,8-million and operating income up 50,6% to R134,3-million CTP recently made an offer to buy out Penrose minorities, offering one CTP share for every 480 Penrose shares, equivalent to 10c a Penrose share



FEELING THE PINCH . . . CTP's Howard Becker, who says falling demand reflects a weakness in the economy

Dagga to light up Irish homes

Dublin – Cannabis will light up Irish homes, replacing peat as power plant fuel. Dr James Burke, who has grown a special strain under licence from the justice department, says the plant flourishes in Ireland, growing nearly 5m tall. "There is no possibility of everyone getting stoned from the fumes of a power station," he says. "You would have to smoke five or six acres of the stuff we are growing to get a hit." – Times News Service

(198) Star 17/8/96

ABSOLUTE HEMPSENSE . . . Kim keeps cool in clothes made from hemp at South Africa's first hemp products shop, in Longmarket Street, Cape Town Picture: JUSTIN SHOLK

You don't smoke it, you wear it!

ST(cm) 18/8/96

Sunday Times Reporter

AS JOINT owner of South Africa's first hemp products shop, it's only natural that his business card reads, "Harry Kentrotatas, hemp proselytiser*"

And proselytise is what he does, with all the fervour of a Saul who's become Paul after walking the road to Damascus

"Hemp can save the planet," he asserts, drawing deeply on his Texan filter "Forget the new world order, the second coming, alien intervention the only thing that can save the planet is hemp

"It can replace every harmful industry on Earth, its seed is the most complete form of protein in the plant kingdom, and its medical uses are legion "

Hemp is a fibre from the stalks of a strain of dagga plant, and according to Kentrotatas, clothes made from hemp are "stronger, more comfortable, and longer-lasting than other fabrics

"And they contain no chemicals or poisons — it's a completely natural product"

His shop, named Absolute Hempsense, sells clothes, fabric, massage oil, cigarette papers, soap, face paint, bags, lipstick and sweets all made out of — you guessed it — hemp, imported from China, Hungary and Holland

And, no, you won't get stoned if you smoke your hemp trousers

*Proselytise to convert someone from one religious faith to another

(198)

Shops still sell ciggies to kids

(198)

MOST shops and cafes sell cigarettes to children as young as 10 years — although it is against the law — without turning a hair, a Medical Research Council survey has found

The survey found that although shops were banned from selling cigarettes to children under 16 years, 89% of retail outlets surveyed nevertheless sold cigarettes to children — most of whom were in school uniform. Of these, 88,7% sold the cigarettes without asking the children's age or whether the cigarettes were for their own use.

The results, published in the latest SA Medical Journal, said children between 10 and 12 years of age were recruited to carry out the experiment, visiting 200 cigarette outlets in greater Johannesburg

The aim was to see whether retailers stuck to the Tobacco Products Control Act of 1993, which makes it an offence to sell tobacco products to minors.

The survey sample included supermarkets, cafes, spazas and street vendors, and covered a wide range of racial and socio-economic groups. — Staff Writer

CT 20/8/96

RICHEMONT

1

FUELLED BY TOBACCO

(198)

FM 23/8/96

- **ACTIVITIES.** *Tobacco, luxury goods, direct retailing and electronic media*
- **CONTROL** *Rupert and Hertzog families*
- **CHAIRMAN** *N Senn MD J Rupert*
- **CAPITAL STRUCTURE** *5,2m "A" bearer shares and 5,2m "B" registered shares Market capitalisation R36,4bn*
- **SHARE MARKET.** *Price R69,75 Yields 0,6% on dividend, 4,8% on earnings, p e ratio, 20,8, cover, 6,9 12-month high, R70,50, low, R43,75 Trading volume last quarter, 11,8m shares*

Year to March 31	'93	'94	'95	'96
ST debt (£m)	523	391	474	519
LT debt (£m)	789	136	103	1 109
Debt equity ratio	n/a	n/a	n/a	0,23
Turnover (£bn)	3,44	3,67	3,85	4,31
Pre-int profit (£m)	633	476	755	893
Earnings (£/unit)	36,59	35,58	45,61	55,05
Dividends (£/unit)	5,89	6,15	7,0	8,0

Efforts are being made to diversify the sources of profits by expanding the luxury goods division and developing the new electronic media interests

For now, though, Richemont remains predominantly a tobacco company, deriving the bulk of its profits from this The proportion of operating profit gained from tobacco and the profitability of these sales have continued to grow And this is in spite of pressures on the world's tobacco industry, especially in developed economies

Comparisons over five years emphasise the resilience of Richemont's tobacco business In 1991, the group gained £351,6m or 63,2% of its operating profit from tobacco, with about 37% or £206,1m coming from luxury goods In the 1996 year, £587m or more than 70% of profit was from tobacco, with £249,7m or about 30% from luxury goods

Johann Rupert

Similarly, in 1991 the operating margin was 22,8% on luxury goods and 17,2% on tobacco Now tobacco produces a margin of 20,7% and the margin on luxury goods has slipped to 17%

The two major deals of last year enhanced the importance of tobacco for Richemont Firstly, minority shareholders in the UK-based Rothmans International (RI) were bought out, making RI a wholly owned subsidiary Secondly, the tobacco interests of RI and Rembrandt Group (Remgro) were merged The latter deal left Richemont owning two-thirds of the enlarged RI, with Rembrandt holding a third

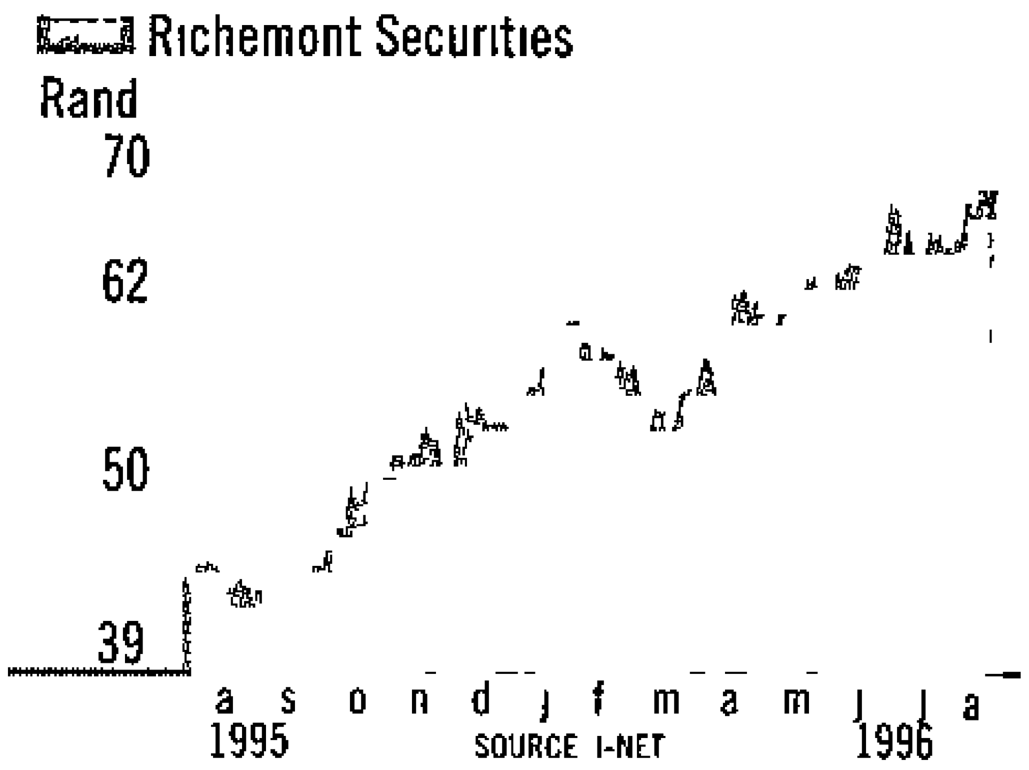
MD Johann Rupert now describes RI as the fourth largest tobacco group in the world, with sales volumes exceeding 200bn cigarettes (including other tobacco product equivalents)

The wide geographic spread of its tobacco interests, with a strong presence in developing countries, helps to sustain growth In the 1996 year, says Rupert, the worldwide volume of cigarette sales by RI companies was 2% higher than in the previous year Gains in volumes — achieved principally in the former Soviet Union, Equatorial Africa, the Middle East, Vietnam, Malaysia, Canada and Myanmar — outweighed lower volumes in SA, the mature markets of Western Europe, Indonesia and Australia

With the southern African region's profits included on a full-year basis, net sales revenue rose by 6% to £3,17bn and operating profit grew by 13% to £759m, thanks partly to cost containment SA, Malaysia, Germany, Belgium, the former Soviet Union and Equatorial Africa were major contributors to profit growth

The effect of profits derived from Africa after last year's deal with Remgro is interesting In the 1995 annual report, Africa was not considered important enough to mention in the geographical (tobacco) profit breakdown The latest breakdown, including results from southern Africa for the full years to March 31 1995 and 1996, shows Africa and the Middle East contributed operating profit in 1996 of £264,2m on net sales revenue of £682,7m

This area — where profits were boosted by the recovery of volumes in Equatorial Africa and price increases in SA (where RI has the lion's share of the market) — was easily the largest source of operating profit from tobacco Others were Europe (£218,8m), Americas (£84,4m), Asia (£138,4m) and Pacific (£34,9m)



Also notable is that the profitability of sales to Africa and the Middle East appears to be far higher than those to any other region Regional operating margins (ratio of operating profit to net sales revenue) are Africa and the Middle East 38,7%, Europe 15,9%, Americas 29,8%, Asia 28% and Pacific 10,6%

Benefits of the Remgro/RI tobacco merger seemed clear enough from the standpoint of Remgro shareholders, who gained exposure to a major rand hedge investment However, these figures may help to explain why Richemont was willing to acquire a major interest in a country with a weak currency — though Rupert does say SA is one of the world's top 25 cigarette markets

In the luxury goods division, held through a majority interest in the Swiss company, Vendôme, sales increased by 13% and the £250m operating profit was up by 12% This division holds leading luxury goods brands such as Cartier, Piaget, Alfred Dunhill and Montblanc

No geographical breakdown is given but these interests are widely spread and growing Cartier's retail network contin-

Cont →

FM 23/8/96

(2)

ued to expand with 164 boutiques open around the world by year-end Twelve new shops were opened, seven in Asia, three in America and two in Europe

Rupert says that in the luxury goods businesses the slow pick-up of consumer confidence continues to limit the growth that can be achieved in developed markets New strategies are being developed to open avenues for expansion

The impact of the electronic media division, held in 50%-owned NetHold, a developing international pay-TV company which now operates in more than 50 countries and serves 2,7m subscribers, is seen mainly in its demands for capital and its mounting losses In the 1996 year, Richemont absorbed a loss of £46,3m (1995 £38,1m) on its media interests

Rupert notes that fundamental change is occurring in this industry Investments required in digital broadcasting technology will be high and "no-one is yet sure as to the likely level of acceptance by consumers or the time span over which such acceptance will take place" NetHold has joint ventures in some of its territories and Rupert makes it clear that others may follow Ultimately, there could be huge value in NetHold but it is unclear when shareholders will benefit

The Remgro/RI deal left Richemont with larger borrowings but the financing terms are attractive and it holds cash and equivalent totalling £829,9m The net borrowing position is only £240,1m, so the balance sheet remains rock solid

Aside from the dominance of the tobacco interests, the other crucial aspect of Richemont for SA shareholders is the influence of exchange rates on the reported profits and their effect on the JSE's valuation of the share

The group reports in sterling but its activities are widely spread around the world It is a pound hedge (earnings benefit if the pound weakens against other major currencies) and it remains one of the JSE's leading rand hedge shares

At R70, the share stands 60% above its 12-month low The profit record, cash flow and currency hedge element should ensure the share retains its premium rating for local investors *Andrew McNulty*

CT 29/8/96

68% in SA favour tobacco ad ban

PRETORIA: Altogether 68% of South Africans favoured a ban on tobacco advertisements, Department of Health director-general Dr Olive Shisana said here yesterday.

This was according to a recent survey commissioned by the department and conducted by the Human Sciences Research Council and the Medical Research Council.

(7) (198)

Cigarette excise duties a 'double-edged sword'

(198) MHG (Bm) 30/8-5/9/96

Lynda Loxton

REMBRANDT chairman Johann Rupert this week shrugged off the growing anti-tobacco lobby in the United States but warned the South African government against trying to milk more excise duty from the local industry.

When asked at the annual meeting in Stellenbosch what the recent court ruling against US company Brown and Williamson (B&W) and President Bill Clinton's moves to clamp down on smoking would mean for the tobacco industry worldwide, Rupert said B&W had appealed against the court ruling and was fairly confident it would win.

This was because although the US had more ex-smokers than smokers, the jury system was reluctant to find against the tobacco industry.

"Originally, it was argued that there was a health risk that the smoker did not know about, but the juries ruled that there was a voluntary assumption of risk because it was assumed that everyone knows about the health risk," Rupert said.

"Then people tried to say that tobacco was addictive. The lawyers said that if it was addictive, why do you know more ex-smokers than smokers?"

Rupert, who insists on a liberal display of ashtrays at his annual meetings so that people can smoke, admitted that "if a person has a sore throat, it is unpleasant for non-smokers to be in the same room. But claims that environmental tobacco smoke is a health risk are difficult to prove," he said

'What irritates me is that I know one of Clinton's best friends and he assures me that Clinton enjoys his cigars ... and he DOES inhale'

Clinton has been pushing for tougher anti-smoking laws, especially in buildings, and higher excise duties on tobacco

Rupert dismissed this as "a very populist approach in an election year, especially given that Bob Dole has different views."

Dole, who used to smoke heavily, has been reluctant to support the anti-smoking lobby, much to the dismay of conservatives.

"What irritates me is that I know one of Clinton's best friends and he assures me that President Clinton enjoys his cigars ... and he DOES inhale," Rupert said.

On the issue of excise duties, Rupert said they were a double-edged sword. It could be argued that they should be raised to discourage smoking and raise extra revenue for the fiscus, but this also encouraged the smuggling of imported tobacco.

South Africa, he said, was a prime example of this. Excise duties had been raised so high that illegal tobacco imports were flourishing and could now be found in 80% of all urban retail outlets — without the health warnings that local brands carried.

He said most of the illegal imports were Brazilian and American brands.

Rupert blamed the illegal imports on the lack of trained manpower in customs and excise and doubted whether current efforts to jack up the department would yield results quickly

'Tobacco advert ban will harm related industries'

(198) ARG 31/8/96

BENITA VAN EYSSEN
Own Correspondent

IF the Health Department adopts World Health Organisation proposals to ban tobacco advertising, industries involved in cigarette promotion will suffer, the Tobacco Institute says

The department is reviewing the WHO proposals as guidelines for draft legislation

"Withdrawing space used for tobacco ads will result in an enormous loss of revenue to advertising and its related industries," says Hillary Thomson of the Tobacco Institute

A spokesman for the National Council Against Smoking, Dr Yusuf Saloojee, said South Africa could follow the policy of the almost 30 countries – including the United States, France, Cuba, Australia and Mozambique – where tobacco advertising is forbidden

Proposals by the council to increase the tax on the sale of cigarettes – making smoking an expensive habit and reducing consumption, especially by children or young adults – have been presented to the Department of Health

Mr Saloojee says "A percentage of the taxes would go to establishing and maintaining a health promotions trust Everyone stands to benefit from this situation the Government will be making money from taxes, health care will receive a percentage of the taxes, and the younger generation will not be exposed to smoking being portrayed as glamourous"

Smuggled tobacco escapes tax

BD 2/9/96 (198)

Kathryn Strachan

MORE than 30% of cigarettes sold in the world are smuggled across borders to evade taxation, Asian Consultancy on Tobacco Control representative Prof Judith Mackay said this week.

She told a Pretoria workshop on tobacco control that in a single case of smuggling, currently being heard, R1,2bn was involved.

She said governments had to be aware of the widescale cigarette smuggling, which resulted in the loss of a large proportion of potential income.

Mackay said Asia had seen enormous changes in tobacco controls over the past 10 years and their example showed that developing countries could successfully introduce tobacco legislation and change attitudes in a relatively short time.

While the health ministry led the challenge against tobacco, many other government departments such as finance, sport and customs and excise had equally crucial roles to play in curbing tobacco use.

She said that because the full effect of tobacco-related deaths was not yet apparent in developing countries, many governments were still not convinced of the degree of harm caused by smoking Governments were preoccupied with other, more visible health problems, they had little experience in dealing with the tactics of the tobacco industry and they could be reluctant to act because of the perceived benefits of tobacco tax revenue, she said

"Thus it is important for governments to realise that tobacco always brings a debit to their economy and that tobacco control measures are in their economic, as well as health, interests," she said.

World Health Organisation expert Neil Collishaw told the workshop that while tobacco consumption was falling in the developed world, consumption was rapidly increasing in developing countries.

He cited a World Bank report which stated that; "Unless smoking behaviour changes, three decades from now premature deaths caused by tobacco in the developing world will exceed the expected deaths from AIDS, tuberculosis, and complications in childbirth combined"

SA has lowest tax on tobacco products

(198) Sowetan 2/9/96

By Mokgadi Pela

TAXATION on tobacco products in South Africa is among the lowest in the world thereby making it affordable to consumers, a leading anti-tobacco advocate told a meeting in Pretoria

Speaking at the tobacco control workshop at the University of Pretoria Medical School last week, Dr Yusuf Saloojee of the National Council Against Smoking said "failure to raise tax on tobacco products to acceptable levels has resulted in the increase in consumption and a decrease in real government revenue from this commodity Government should realise that every tobacco tax decision is a health decision"

"Excise duties on tobacco, after adjusting for the Consumer Price Index, have dwindled from more than R1 000 million in the early 70s to less than R750 million 20 years later This sharp decrease has allowed the manufacturers to reduce the real price of cigarettes Cigarettes are now 21 percent cheaper than they were in 1970," Saloojee said

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Paper union calls for one-day strike (198)

The Paper, Printing, Wood and Allied Workers' Union called on its 14 000 members in KwaZulu Natal to stay away from work next Friday to protest against Lion Match's refusal to reinstate 380 dismissed workers who picketed company offices to protest against disciplinary hearings two weeks ago. Lucky Mhlongo, the secretary of the union's southern Natal branch, said the union planned to march on the Durban Chamber of Commerce and Industry to ask that it make Lion Match act responsibly. "We will have a national one-week strike if our members are not reinstated," he said. — Stuart Rutherford, Durban

CT(BR) 5/9/96

HORTORS (198)

REASON FOR CONFIDENCE

FM 6/9/96

Investor confidence in Hortors was renewed during the past 12 months — boosted by much-improved 1996 results and expectations of further growth — after a consistent profit record was broken during fiscal 1995

- **ACTIVITIES:** *Printing, packaging and photolithography*
- **CONTROL:** *CTP Holdings 88%*
- **CHAIRMAN:** *E M Jankelowitz MD S F Cormack*
- **CAPITAL STRUCTURE** *57,1m ords Market capitalisation R276,9m*
- **SHARE MARKET.** *Price 485c Yields 1,4% on dividend, 2,2% on earnings, p e ratio, 45,3, cover, 1,5 12-month high, 500c, low, 140c Trading volume last quarter, 991 232 shares*

Year to March 31	'93	'94	'95	'96
ST debt (Rm)	3,5	6,2	2,1	14,1
LT debt (Rm)	3,4	3,9	13,8	6,4
Debt equity ratio	0,15	0,19	0,26	0,27
Shareholders' interest	0,61	0,59	0,60	0,60
Int & leasing cover	n/a	n/a	6,2	8,7
Return on cap (%)	15,4	13,6	10,1	17,8
Turnover (Rm)	94,0	123,1	135,7	166,6
Pre-int profit (Rm)	12,1	12,9	10,0	20,8
Pre-int margin (%)	12,9	10,5	7,3	12,5
Earnings (c)†	16,0	18,5	11,7	10,7
Dividends (c)	6	7	3	7
Tangible NAV (c)	92	102	11	121

† Diluted headline earnings

Operations have been streamlined and operating margins widened after losses from an acquisition depressed profits during the previous year A commitment to meeting world standards should help reassure investors that the good results can continue

Things haven't gone entirely according to plan, however CTP management is considering whether to appeal a ruling by the Supreme Court that prevents the Hortors delisting plan from going ahead Chairman Edwin Jankelowitz says it is not yet clear why the ruling was made

Under the proposed scheme of arrangement, CTP would offer minorities one CTP share for 10 Hortors shares It is likely that news of the appeal is tempering market reaction

In fiscal 1995, costs of relocating and integrating subsidiary Clegg Holdings caused operating margins to drop though turnover improved This year, Hortors acquired the controlling inter-

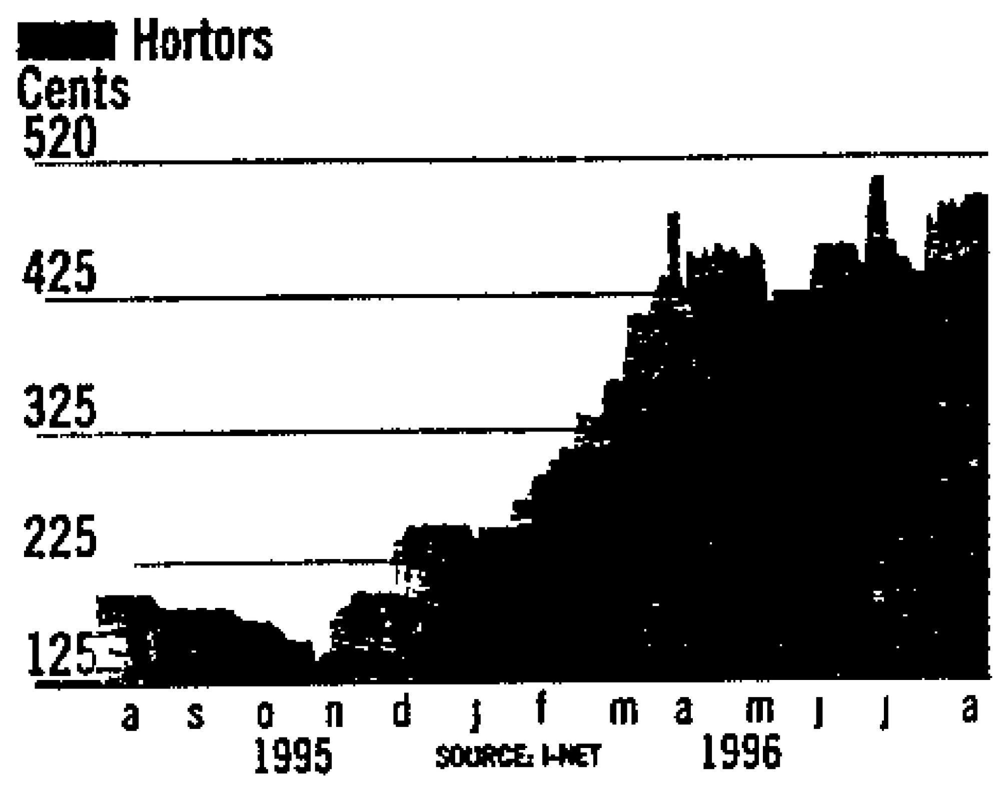
Edwin Jankelowitz

ests of Clegg Though the packaging and printing operation performed below expectations, it is improving the group's unit costs through greater volumes and nominal increases in overheads

Jankelowitz says the focus of 1996 was on efforts to improve operating efficiency, cost containment and working capital management It produced good results — pre-interest margin widened from 7,3% in fiscal 1995 to 12,5% and returns on capital employed jumped from 10,1% to 17,8%

Turnover rose by 22,8% to R166,6m, while operating income doubled

And attributable headline earnings jumped 119,9% to R13,3m though total EPS fell slightly after goodwill was written off



But attention to the balance sheet is due this year, interest-bearing borrowings increased, with the short-term portion up seven-fold to R14,1m The effect on profits, evident in financial 1996's accounts, is likely to increase Finance charges doubled last year

Some divisions attained ISO 9002 certification by adopting specified world-class quality assurance standards Most divisions are performing well, and Jankelowitz hopes to introduce new products this year

The Hortors share price roughly reflects the value of the CTP offer Ten Hortors shares at 485c each are worth slightly less than one CTP counter at R49 Though the counter has been rerated during the year, it still has longer-term attractions — which presumably is why CTP wants the shares held by minorities *Michelle Joubert*

Living on the edge: the lot of the smoker

The tobacco industry's problem is not fear of living but fear of dying. Its products pose risks but we need to take risks, **Kathryn Strachan** was told at a recent conference

(198) BD 12/9/96

THE tobacco industry went on an African offensive last week when it put its case to a group of journalists from eight African countries at a Mauritian resort

The two-day British American Tobacco (BAT) marketing campaign, addressed by scientific, legal and advertising consultants to the industry, was a polished affair intended to give "the perspective hidden from the public"

However, the veneer wore thin after the opening presentation when BAT head scientist Dr Chris Proctor admitted that two of the statements he had made in his presentation were inaccurate He retracted them

The first was that an official from the Indian health ministry had told him the World Health Organisation had told the ministry that unless it adopted tobacco controls, the World Health Organisation would not give it funding for other health programmes, and the ministry was therefore forced to adopt tobacco controls against its wishes The second inaccurate statement was that an Australian health ministry official had told him the ministry regretted placing a ban on tobacco advertising "We got it all wrong," he reported the Australian health ministry official as having told him This statement, too, was retracted after being challenged

Proctor apologised for the inaccuracies, saying he was thrown by having to give a presentation which was supposed to have been given by a colleague who was ill

The main thrust of Proctor's argument was that while there were strong indications that smoking caused lung cancer, the situation was far more complicated than this, as scientists had never been able to state exactly what chemical it was in tobacco that caused lung cancer

This is the "missing link" at the centre of the industry's case

The fact that 90% of people with lung cancer in the US were smokers was a strong indication of risk, he said, but unless a direct cause-and-effect relationship was proved, it was not possible to state with certainty that smoking caused lung cancer

While the industry admitted smoking was a risk, it said adults were able to make an informed choice on whether they wanted to take that risk

This is where the industry and the anti-smoking campaigners part ways The anti-tobacco league says the industry, through its attractive advertising images and sports and concert promotions, is specifically targeting youth, luring them into smoking

The other foundation of his argument (and a common theme throughout the conference) was that the World Health Organisation had a US agenda, and the industry objected to the US government, through the organisation, setting the health agenda for countries where smoking was allegedly not a problem

This message is confusing, considering the US government has used the threat of trade sanctions to prevent the passage of legislation to curb smoking in Taiwan and Hong Kong, and to obtain access for US cigarette manufacturers to the Japanese market

The "conspiracy theory" does not make clear why the US government would want other countries to control tobacco when its own economy benefits from other countries' tobacco consumption

Dr Ray Witorsch, professor of physiology at Virginia University, US, and consultant to BAT, took up the "distorting science to serve a political agenda" theme

There were two categories of studies examining the risks of tobacco smoke in the environment, he said All the studies that showed there was no risk were scientifically rigorous and all the studies which showed there was a risk were not scientific, he said

In the second category were studies by the US government's environmental protection agency which were the subject of US Congressional hearings "Clearly, something other than science underlies these conclusions and one cannot help but wonder about political and/or social agendas that have little to do with science or health," he said

Not mentioned were the five current federal grand jury inquiries into the tobacco industry, including one charging that data on environmental tobacco smoke had been falsified

Next up was Dr Tom Watson, public relations adviser to the International Tobacco Growers' Association, who said demand for tobacco was rising between 1,5% and 2% a year, and that prices were likely to rise 21% by 2005

Tobacco growers were threatened by the World Health Organisation's intrusion into the UN food and agricultural organisation as well as internal crop taxes on leaf sales in Zimbabwe, Malawi, Tanzania and Brazil

Tobacco was a major element in African nations' foreign exchange earnings, it was the second most stable agricultural commodity, it often grew in difficult soil and it fitted in with crop rotations

However, research by University of Sydney public health professor Simon Chapman provided data from 44 African countries that traded in tobacco, showing that the continent had a deficit balance in trade in tobacco.

BAT said that in Zimbabwe only 3% of the country's arable land was used for tobacco

Why then was the World Bank offering African countries incentives to shift from tobacco crops to food crops in an attempt to improve the continent's ability to produce its own food? BAT responded by saying the World Bank was influenced by a document produced by the London-based Panos Institute in 1985 The industry had disproved the document's claims, BAT said

Shabanji Opukah, head of BAT Kenya's corporate affairs, said tobacco was one of the most successful industries globally In Africa it contributed about 4% of total government revenue and created 2,4-million jobs

The health costs were left out of the economic equation

The World Health Organisation estimates that in the next 20 years there will be 2-million deaths a year and by 2025, 70% of all deaths from smoking will be in the developing world

Prof Ian Hindmarch, head of human psychopharmacology at the University of Surrey, UK, and consultant to BAT, fought claims that nicotine was addictive While it had an effect on the central nervous system, was psychologically rewarding and its use was habitual, this was not enough to classify it as an addictive substance, he said Some people had mild, transient, psychological states when giving up smoking (although many smokers trying to give up may disagree on the definition of "mild") and others had no withdrawal symptoms at all

For these reasons, and because it did not have the same profile as giving up drugs such as heroin, cocaine and alcohol, it could not be classified as addictive

BAT's legal consultant, Canadian Simon Potter, looked at the relationship between advertising bans and tobacco consumption

He gave Canadian government figures which showed how, in the past two decades, smoking had declined — until a ban was placed on advertising, which reversed the trend The trend was more marked among teenagers, Potter said, because making it more of an illicit substance it had increased its allure to rebellious youth

Anyway, he said, tobacco advertising was not intended to make people start smoking but to influence their choice of brand

If this is true, why does the industry in SA focus on publications targeting women and blacks when smoking levels are higher among men than among women, and higher among whites than blacks? If advertising is primarily to influence brand choice, it would make sense to target publications with readership that already has a high smoking rate

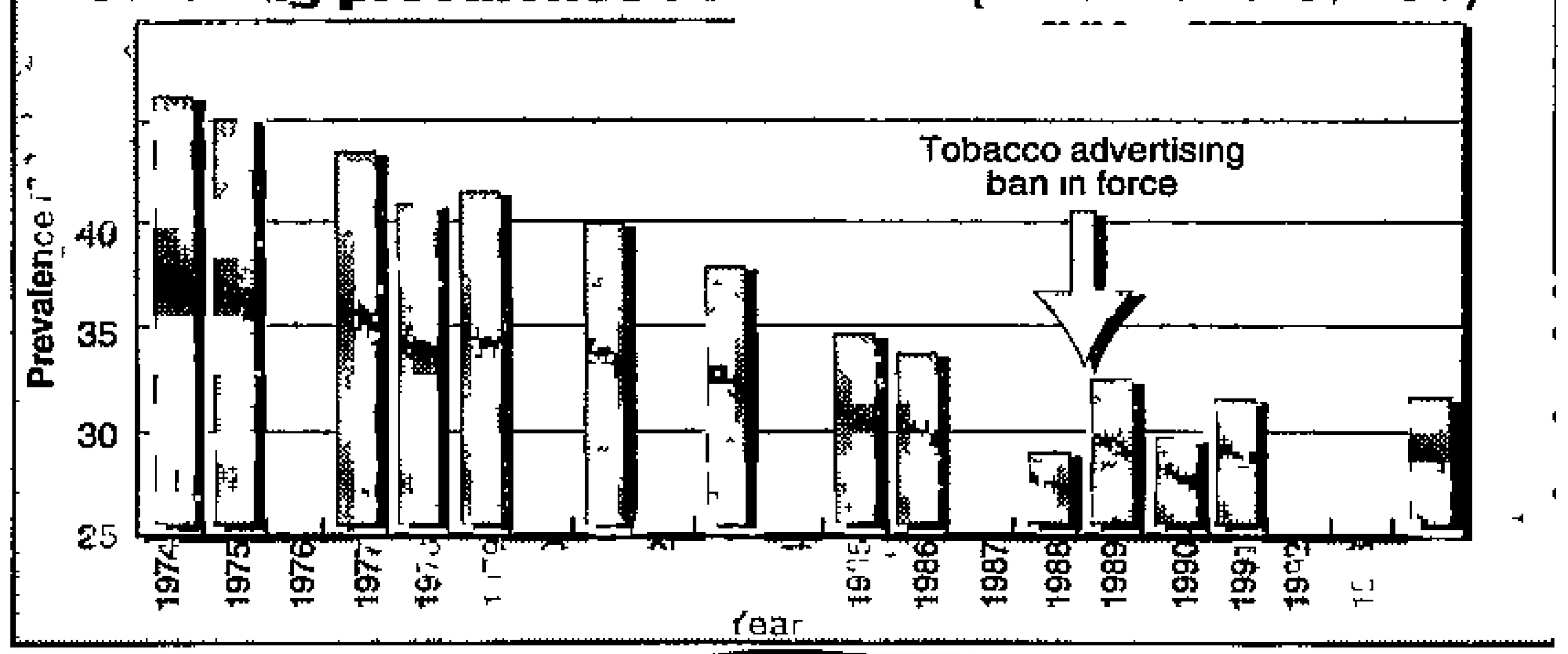
And this is how the concluding presentation by BAT's communications consultant Tana Wells went taking risks is a part of life by shying away from risk and having a "fear of living", by worrying about the hypothetical risks presented by a glass of whisky or a whiff of someone's cigarette, the "questing nature of the human spirit is also in peril"

After a list of bizarre litigation and compensation cases, mostly set in California, and questioning health warnings on items, Wells drew a picture of a cowering, fearful US if a fear of living had prevailed among the Vikings or in Columbus's era, their ships would not have passed approval and new frontiers would never have been discovered, she argued This fear of living was one American discovery the world could do without, she cautioned Africa.

The nature of the risk is being confused What is at issue here is a major preventable cause of death.

The industry's problem, in Africa and elsewhere, is not fear of living but fear of dying.

Smoking prevalence in Canada (all smokers, 15+)



Smoke surrounds tobacco ads

MtG 27/9-3/10/96 (198)

With advertising averaging R166-million, the local tobacco industry has refused to voluntarily withdraw its ad campaigns, reports **Gillian Farquhar**

Offensive Many tobacco billboard ads are illegal as the health warning is too small, claims the National Council Against Smoking
PHOTOGRAPHS SIDDIQUE DAVIDS

THIS week the Tobacco Institute of Southern Africa denied that the country's tobacco companies would voluntarily withdraw their advertising next year

It was speculated in advertising and marketing circles that this move recently attempted by American tobacco companies would pre empt government legislation enforcing a total ban on cigarette advertising

In the United States the proposed voluntary withdrawal of advertising to curtail the under-age use of tobacco products was rejected by Congress which argued that the proposal by US tobacco companies fell short of its demands

Although it was not planning to voluntarily withdraw tobacco advertising the local tobacco institute said it would view a government ban as against the spirit of freemarket economy

It argued that a ban on tobacco advertising would also be in violation of freedom of expression

Director of the Association of Marketeers Derrick Dickins said a discussion document on banning tobacco advertising had been circulated to "selected parties", but neither his association nor the South African Chamber of Business (Sacob) had seen it

Dickins said the Association of Marketeers and Sacob were "in principle, totally opposed to any legislation that interfered with free-market processes' He added that the association was also opposed to government intervention in the advertising industry

It would be contradictory" to place restrictions on the advertising of a product (such as cigarettes), if that product can be legally sold, he said adding that a ban could "cause a big dent in the economy and result in large numbers of people being put out of work

According to an advertising research company, the country's total adspend figures for the year ending June 1996 was about R4-billion — with tobacco advertising responsible for R166-million

Last year the total adspend was R4,2-billion with R168-million spent on tobacco advertising

According to Adindex 1996 figures, tobacco advertising accounted for 19,6% of adspend in the magazine industry compared with 30% for newspapers For 1995, the figures were 17% and 37% respectively

This year's Adindex figures indicated that 42% of adspend in print media was related to tobacco products, while radio was responsible for 37% of tobacco advertising Tobacco adspend in print and radio showed a 5% rise since last year

The country's media would be "hard-hit" by a ban as the sector relied heavily on tobacco advertising, Dickins said

For many of the emerging community radio stations fighting for a piece of the shrinking advertising pie, it would be a death blow if tobacco advertising were banned, Dickins warned

Talib Sadie, the SABC's chief finance executive said advertising on the South African Broadcasting Corporation s radio stations was aimed mostly at white, coloured and Indian audiences, with advertisers spending a lot less on African language broadcasts

African language stations are already battling and could not afford a cut in advertising revenue, Sadie said

Advertising manager of National Magazines Limited (Natmags) Henry van Rensburg argued that legislation permitting a ban on tobacco products could cause some advertising agencies to shut down as tobacco advertising formed a substantial portion of their ad revenue

Although economically detrimental, Van Rensburg said restrictions on tobacco advertising were part of a global trend and were inevitable

Natmags therefore regarded tobacco advertising as a "volatile" source of revenue and would no longer include it in their forecasts of projected advertising turnover, Van Rensburg said

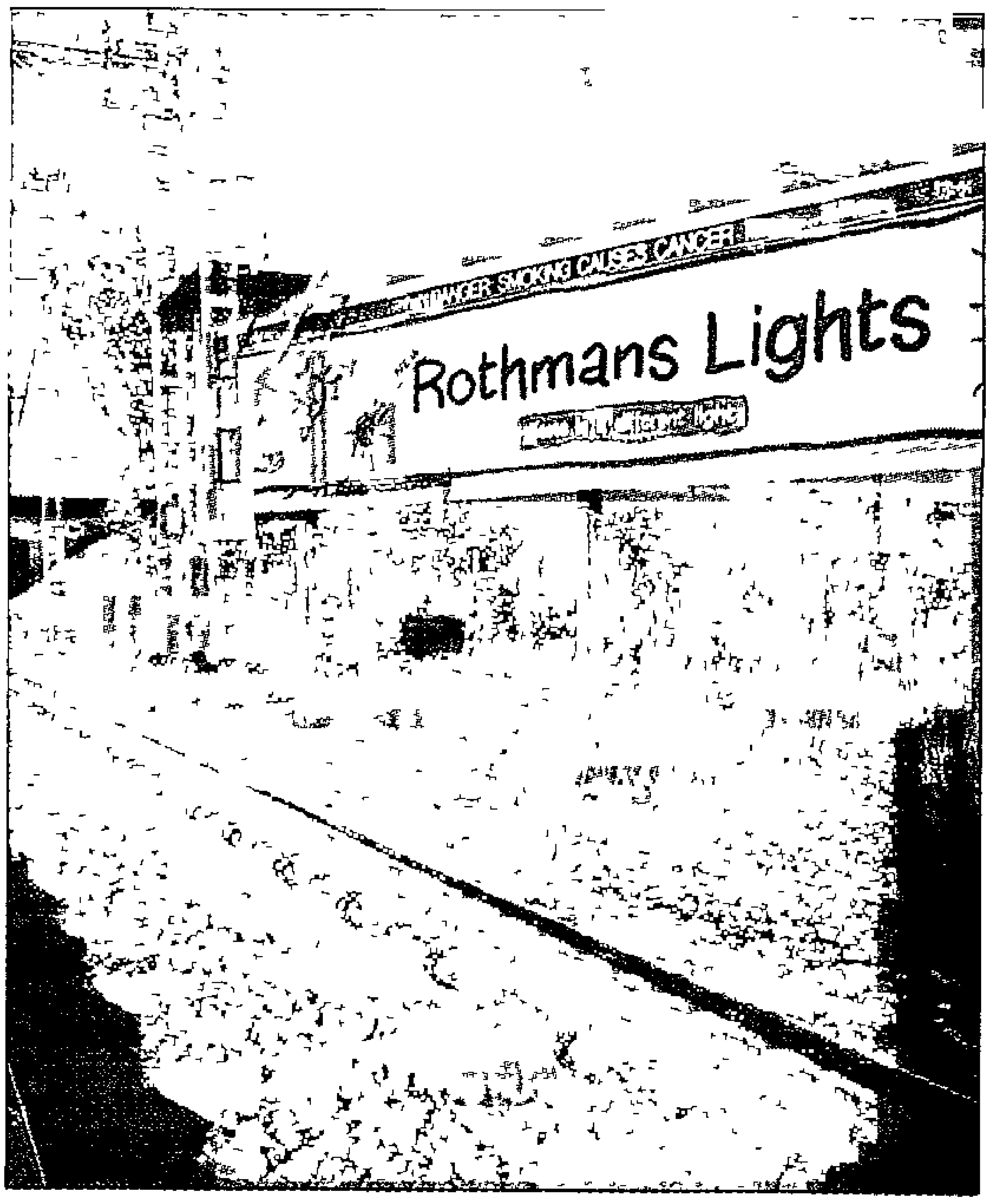
At the time of going to press, the relevant health officials had not responded regarding the state of legislation to ban tobacco advertising But the director of the National Council Against Smoking, Yusuf Saloojee, citing recent consultation with the ministry, said he was aware that it was being "seriously considered" although he had no knowledge of a discussion document in circulation

He said that support for this move was growing within the government and the anti-smoking lobby was pressing for legislation placing a total ban on tobacco advertising, in line with the World Health Organisation's recommendations

The anti-smoking lobby would oppose any compromise in the form of voluntary agreements to withdraw or reduce tobacco advertising by tobacco companies, said Saloojee. "These types of arguments left too many loopholes," he argued

He said that if the government put 20c more tax on a pack of 20, it would amount to R200-million extra revenue that could be used to establish a health promotion fund that could place advertisements in the media promoting a healthy lifestyle — thus acting as a buffer for losses in tobacco adspend

However, Dickins discounted Saloojee's tax proposal as a viable solution, saying it was based on inaccurate accounting



Battle over billboards

Gillian Farquhar

BENSON & HEDGES faces legal action over allegedly illegal billboard advertising in George According to Stefan Vos, a consultant for the Advertising Standards Authority (ASA), Ken Shepherd of the Tobacco Action Group recently complained that the offending billboard did not comply with legal requirements as it did not display a health warning

The billboard remained unchanged after the ASA had notified the company Shepherd said he would take legal action against the company

The National Council Against Smoking said that most tobacco billboard advertisements were illegal as the health warning was smaller than that required by law "The ASA has done nothing to ensure that tobacco companies comply with the law and it is one of their functions to ensure all advertising is legal." Vos said the ASA had referred this complaint to the Health Department, which must assess if the advertisements are illegal, before the ASA could act. However, the Health Department had not responded to the ASA on the issue, he said

Smokers don't heed warning

(198)

Sowetan 3/10/96

By McKeed Kotlolo

A RECENT survey conducted by Technikon Pretoria students revealed that the warnings on cigarette packets, highlighting the dangers of smoking, have very little or no effect at all on smokers

The survey, led by Johan de Jager, was conducted on about 400 people in the Pretoria and Mamelodi areas and involved both smokers (46 percent) and non-smokers (54 percent)

The research project found that even if 99 percent of the total number of those interviewed were aware of the warnings, it had no effect on the smoking habits of about 70 percent of the people

About 50 percent of the non-smokers felt that very little would be achieved by the national anti-smoking campaign

Eighty percent of smokers strongly believed that the anti-smoking campaign was justified

Almost 70 percent of the smokers said they had tried to quit for economic and health reasons but had failed

The average monthly spending on tobacco products ranged between R100 and R300 an individual smoker

Sixty three percent of the smokers said they were average, 15 percent were chain smokers and 22 percent social smokers

Forty three percent of the respondents said to them smoking was just a habit, 37 percent smoked for pleasure, 16 percent for stress A total of 96 percent preferred to smoke cigarettes, 2 percent preferred a pipe and the remaining two percent smoked cigars

Of the non-smokers interviewed, 35 percent had smoked previously, while the rest never smoked before Of those interviewed 70 percent thought smoking in public should be regulated, while 21 percent said no and the remaining 9 percent were uncertain

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Tobacco institute says ban attacks freedom of choice

Amanda Vermeulen (198) BD 15/10/96

THE debate about tobacco advertising is about freedom of choice, but it has been clouded by inaccurate claims by those opposed to smoking, according to a document from the Tobacco Institute of SA

"Some opponents of the tobacco industry believe that all tobacco advertising should be banned They maintain that if you remove tobacco advertisements, you will stop present smokers from smoking and slow down or even stop others, particularly young people, from taking up the habit "

The institute said the debate around this issue was about freedom of choice; "the right of people to make up their own minds about the information available to them, including advertising"

The institute said that in some countries where advertising restrictions were enforced more people started to smoke after the ban had been introduced.

A World Health Organisation survey conducted in 1986 showed that in Finland, for example, where all tobacco advertising was banned, 30% of 15-year-old males smoked every week, while in Austria where advertising was not banned, only 17% smoked weekly.

Similar research had revealed that since the ban on tobacco advertising in Italy in 1962, adult per capita consumption of tobacco had increased 82% by 1986

The institute added that in a recent paper published by the International Journal of Advertising, Martin Duffy at the University of Manchester said that various research studies did not give much support to the view that advertising bans were an effective means of reducing cigarette consumption.

Only when a new type of product was launched did advertising play a role, the institute said, in encouraging consumers to try a different product "In well established markets, such as those for tobacco, washing powder or motorcycles, the purpose of advertising is to encourage people to switch from an existing brand to a new one, or to continue supporting the advertised brand.

"Bans on advertising do not work," the institute said, "because they are not effective in curbing smoking. Research shows that a person's decision to start smoking is influenced by what his family and friends enjoy.

"Advertising may influence which brand is chosen.

"However, the opponents of the tobacco industry continue to promote advertising bans because they are opposed to smoking, regardless of the fact that smoking is legal."

Tobacco Board is dissolved

(1998)

THE Tobacco Board, which was responsible for the domestic marketing of leaf tobacco, has [illegible] dissolved the board and [illegible] port has been [illegible] and [illegible] free of board control. The board said the industry would consider forming voluntary bodies to perform the necessary services for the industry. 02.5.96

The board had [illegible] Agriculture Minister Derek Hanekom to amend the relevant scheme which ordered the marketing of tobacco following Parliament's approval of a new marketing dispensation for agriculture.

Parliament last month passed the Marketing of Agricultural Products Bill which [illegible] month timetable for dismantling of remaining agricultural control boards and requires [illegible] [illegible]

Higher duty on tobacco urged

BD 17/10/96 (198)

CAPE TOWN — Finance Minister Trevor Manuel should increase excise duty on tobacco, and revenue raised should be diverted to the health budget, Health Minister Dr Nkosazana Zuma said yesterday

Her call was supported by Farouk Cassim (IFP), who said the anti-smoking battle should be shifted to the finance ministry He urged Manuel to increase tariffs on tobacco products

Zuma told MPs that excise duties accounted for only 32% of the price of tobacco products, compared to 70% in other countries

Dr Willem Odendaal (NP) said his party would support any anti-smoking campaign, but urged Zuma not to penalise smokers. Instead of using a "sjambok", smokers should be exhorted not to smoke, and be shown the dangers and consequences of such a habit

Cassim, however, said a "soft soap" approach was not the answer and that "it was time to make smokers pay", especially in the light of their cost to the country's economy and productivity

Zuma said more than 2,5 working days were lost through absenteeism as a result of smoking-related diseases.

Quoting World Health Organisation statistics Ahmed Ally (IFP) said it had been estimated that by the year 2000 smoking would be the main cause of deaths

Zuma also backed Cassim's call to ban smoking in most areas of Parliament Speaker Frene Ginwala said Parliament's rules committee was discussing the issue, and it would come up before parliamentarians soon.

Meanwhile, it seems the anti-smoking bug has already bitten Parliament Our **Political Staff** report that chain-smoking Water Affairs and Forestry Minister Kader Asmal is in the painful throes of quitting, and IFP MP Ahmed Ally crushed a packet of cigarettes at the end of the mini-debate yesterday, signalling that he too had given up

In lighter vein, Zuma said "aspirant young liberal democrats" saw DP leader Tony Leon smoking; "revolutionary democrats" saw Transport Minister Mac Maharaj smoking; and "aspirant young Nationalists see FW de Klerk".

The Star Thursday October 17 1996

Tax tobacco to fund health, urges Zuma

(198)

SA excise duties half that of other countries, Parliament told

Star 17/10/96

SAPA
Cape Town

Finance Minister Trevor Manuel should increase excise duty on tobacco and the revenue raised should be diverted to the health budget, Health Minister Dr Nkosazana Zuma said in Parliament yesterday.

She was supported by Farouk Cassim (IFP), who said the anti-smoking battle should be shifted to the Finance Ministry.

He urged Manuel to increase tariffs on tobacco products

Zuma told MPs that excise duties accounted for only 32% of the price of tobacco products, compared with 70% in other countries.

Cassim said a soft-soap approach was not the answer and that "it was time to make smokers pay", especially in the light of their cost to the country's economy and productivity

Zuma said statistics showed that 2-3 million of the country's 19 million children would be killed by tobacco.

Quoting World Health Organisation statistics, Ahmed Ally (IFP) said it had been estimated that by the year 2000, smoking would be the main cause of death.

Cassim said he had convinced his colleague Ally – a heavy chain-smoker – to kick the habit, and said Zuma should urge Transport Minister Mac Maharaj to do the same

Zuma also endorsed Cassim's call to ban smoking in most areas of Parliament

Speaker Frene Ginwala said Parliament's rules committee was discussing the issue, and that the matter would come up before parliamentarians soon.

PAPER/PULP *'Consider alternative sources'*

Asmal says dagga has high potential

(198)

STUART RUTHERFORD CT (BR) 17/10/96

Durban — Pulp and paper companies need to recognise the potential of alternative fibre crops like hemp, commonly known as dagga, which are readily produced by small farmers in many districts, Kader Asmal, the minister of water affairs and forestry, said yesterday

Speaking at the eighth international conference of the Technical Association for the Pulp and Paper Industry of Southern Africa, Asmal said high-fibre dagga crops with low resin contents, that were of no use to the narcotics trade, could produce yields of fibre equivalent to wood

"Dagga is drought-resistant, pest-resistant and grows in a wide range of conditions and terrains," he said

"I know that your technology is not geared to pulping such crops, but non-wood pulping plants require relatively little capital, and you could install non-wood pulping lines alongside your big pulping plants"

He said that would increase pulp volumes and accelerate local economic development by procuring non-wood fibres from local producers

Spelling out challenges to the delegates, Asmal said the industry needed to publish information on environmental performance regularly, to increase the rate of recycling of paper and improve training.

"Unlike many other industries, you do not have an industry training board, you do not have an industry forum where you can meet with labour on training issues, and your worker training is not, for the most part, certified or portable"

Lastly, he called for a much greater, purposeful co-operation and flow of information within the industry to improve understanding and identify areas of common interest.

"I am not suggesting the type of collaboration that might provoke the further ire of the Competition Board, but rather that which would serve the industry, and the people of South Africa best," Asmal said

Zuma's smoke signal – obey or face ad ban

(198)

Tobacco firms warned

ARG 18/10/96

CLIVE SAWYER
POLITICAL CORRESPONDENT

Tobacco companies which continue to defy regulations on advertising could face an advertising ban, Health Minister Nkosazana Zuma has warned.

She disclosed in the Senate that police were investigating alleged violations by four companies – Rembrandt, UTC, Imperial and R J Reynolds Rules on tobacco advertising include health warnings of specified size on packaging and advertising

Dr Zuma said circumvention of the rules included the import of cigarettes which did not carry health warnings

Other complaints against included health warnings on billboards not being visible at night, and failure to include warnings in print advertising

Tobacco companies reacted with surprise to Dr Zuma's threat, saying they adhered to the letter of the law

"We are extremely surprised by the statement as we are complying with regulations to the letter as far as we are aware," said United Tobacco Company spokesman Piet Botha "We can't comment further on such a vague and sweeping statement until our lawyers have had a look but we will do so once the minister specifically points out where we are supposed to have erred," he said

■ South Africa has become a dumping ground for illegal gambling machines rigged to favour their owners and be less than generous to punters Dr Zuma disclosed this in answering a question on behalf of Minister of Trade and Industry Alec Erwin

It was estimated there were about 40 000 illegal gambling machines in the country but there could be as many as 100 000

In a case in Mpumalanga, gambling machines had been set so the percentage paid out was drastically reduced

Dr Zuma said the only legal grounds by which a permit could be obtained for importing the machines was if they were said to be bound for a legal establishment, or if they were being imported for demonstration purposes

Scientists find definitive cigarette-lung cancer link

Washington – For the first time, US scientists have shown a direct link between smoking and lung cancer on the cellular level, adding to mounds of statistical evidence and animal studies done over the past 30 years.

Anti-smoking activists immediately hailed the study as a milestone which showed precisely how cigarettes caused lung cancer. The Tobacco Institute, the industry's main lobby, said it would have no comment until scientific experts reviewed it

The study, which will appear today in the prestigious journal Science, identified a substance in the "tar" of cigarette smoke that directly transformed human lung tissue Cancer researchers call those damaged sites or mutations the "hot spots"

"Our study thus provides a direct link between a defined cigarette smoke carcinogen and human cancer mutations," the scientists wrote

One of the researchers, molecular biologist Gerd Pfeifer, said he doubted the finding would end all public and political debate about tobacco, but "the more evidence you have, the better it is"

Critics of the smoking industry were buoyed They believe the finding will be pivotal in many of the lawsuits pending against tobacco companies – Reuter

Tough-talking Zuma threatens to ban all cigarette adverts

(198)

Star 18/10/96

Minister says police are investigating charges against four tobacco companies for flouting advertising regulations

By Patrick Bulger
Cape Town

Health Minister Dr Nkosazana Zuma has threatened to slap a ban on all cigarette advertising and said police were investigating charges against four tobacco companies that consistently flouted strict advertising regulations

Zuma told the Senate yesterday that the Rembrandt Group, United Tobacco Company, RJ Reynolds and Imperial Tobacco were "evading regulations" and were the subject of police investigations

The total annual adspend on cigarette and tobacco products is R150-million, according to the executive director of the National Council Against Smoking, Yussuf Saloojee

In December 1994 Zuma, who has earned a reputation for a strict anti-smoking stance, published regulations in terms of the Tobacco Products Control Act of 1993

These prohibit the sale of cigarettes to children under the age of 16 and compel companies to display one of eight health warnings on packs of cigarettes They also call for the health warning on billboards to cover 10% of the surface area, for an additional 2% to be covered by the tar and nicotine content notice, and for the script of the health warning to cover between 60 and 70% of the surface area set aside for the warning as a whole

Zuma, who was replying to a question from the Democratic Party's Senator William Mnisi, listed the "evasions" as "importing cigarettes that do not have the prescribed warnings", "posting the billboards with warnings that are not visible at night or do not show the nicotine and tar content as per the regulations", and "advertising in newspapers and magazines with adverts that do not show warnings of the correct size and do not have the tar and nicotine content"

Zuma said the Department of Health had "submitted charges laid by individuals to the South African Police Service" and that the matter was receiving attention from the police

She went on. "If they continue to violate the regulations, we may ban advertising"

Saloojee said he was visited by the police last week in connection with the charges. He alleged that tobacco companies were routinely flouting the regulations They did this by clever lighting and by hiding the warnings within the advertisements so that they did not comply with the regulations

One particular billboard on the roadside from Johannesburg international airport to the city centre was in clear contravention This had been pointed out a year ago but the billboard remained unchanged

Saloojee welcomed the minister's threat to ban advertising Such a ban would be in line with recommendations by the World Health Organisation, which has ruled that the commercial freedom of expression enjoyed by companies was not superior to the right of children not to have to face commercial pressure to take up the smoking habit

The Tobacco Products Control Act does not stipulate exact penalties for contraventions but says offenders are liable to a fine and/or a prison sentence.

Tobacco companies reacted with surprise to Zuma's threat, claiming they adhered to the letter of the law, reports **Stuart Kelly**

"We are extremely surprised by the statement as we are complying with regulations to the letter as far as we are aware," said United Tobacco Company spokesman Piet Botha

"We can't comment further on such a vague and sweeping statement until our lawyers have had a look, but we will do so once the minister specifically points out where we are supposed to have erred," he added

Martin Griffiths, marketing and sales manager for American-based company RJ Reynolds, said "The regulations have been in place for some time and we are all aware of them The minister must point to specific examples of where we have supposedly breached the law We are not in the business of trying to get around those regulations"

Rembrandt communications officer Hans Knoetze said the company was unable to respond last night but would do so once it had scrutinised the statement today

Imperial Tobacco could not be reached for comment

(198)

WHERE THERE'S SMOKE THERE'S IRE

Zuma tackles tobacco giants

CT 18/10/96

ANGERED BY the alleged flouting of cigarette and tobacco advertising regulations by tobacco companies, Dr Nkosazana Zuma said yesterday that if the regulations were not strictly observed she might place a total ban on the advertising of tobacco products.

HEALTH MINISTER Dr Nkosazana Zuma threatened yesterday to slap a a ban on all cigarette advertising and said police were investigating charges against four tobacco companies that continually flouted strict advertising regulations

Zuma told the Senate that the Rembrandt Group, the United Tobacco Company, R J Reynolds and Imperial Tobacco were "evading regulations" and were being investigated.

The amount spent annually on advertising cigarettes and tobacco products is R150 million, according to the executive director of the National Council Against Smoking, Mr Yussuf Saloojee.

Regulations under the Tobacco Products Control Act of 1993 prohibit the sale of cigarettes to people under 16 and compel companies to display one of eight health warnings on packs of cigarettes

They also call for the health warning on billboards to cover 10% of the surface area, for an additional two percent to be covered by the tar and nicotine content notice and for the script of the health warning to cover between 60% and 70% of the surface area set aside for the warning as a whole.

Zuma listed the "evasions" as:

- Importing cigarettes that do not have the prescribed warnings
- Posting the billboards with warnings that are not visible at night or do not show the nicotine and tar content as required.
- Placing newspaper and magazine adverts that do not show warnings of the correct size and do not show the tar and nicotine content.

Zuma said the Department of Health had submitted charges laid by individuals to the South African Police Service.

"If they continue to violate the regulations we may ban advertising," she said.

Saloojee alleged that tobacco companies were routinely flouting the regulations. They did this by clever lighting and by hiding the warnings within the advertisements in a way that they did not comply with the regulations.

Saloojee said a ban on advertising would be in line with recommendations by the World Health Organisation, which has ruled that the commercial freedom of expression of companies is not superior to the right of children not to have to face pressure to take up the smoking habit.

Tobacco companies reacted with surprise to Zuma's threat, claiming they adhered to the letter of the law

"We are complying with regulations to the letter as far as we are aware," said United Tobacco Company spokesman Mr Piet Botha.

Mr Martin Griffiths, marketing and sales manager for American-based company R J Reynolds, said. "The minister must point to specific examples of where we have supposedly breached the law We are not trying to get around those regulations."

Rembrandt communications officer Mr Hans Knoetze said the company would respond today after it had scrutinised the statement

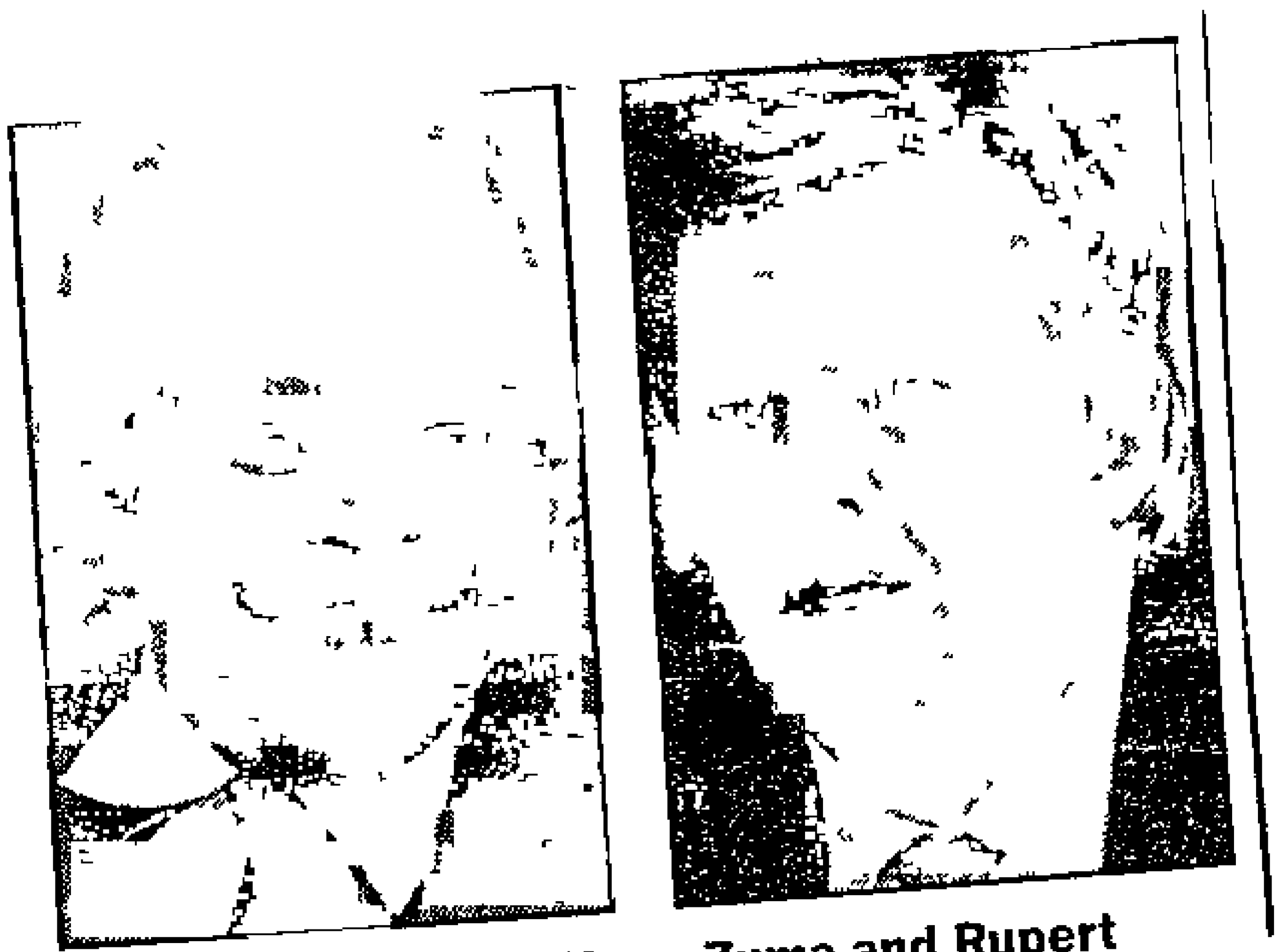
Imperial Tobacco could not be reached for comment — Political Staff

(198) ST 20/10/96

PUFFING WAR

Tobacco tycoon Rupert comes out smoking against Zuma

By CAS St LEGER



SWORDS DRAWN . . . Zuma and Rupert

THE giant Rembrandt empire has launched an unprecedented attack on the Health Minister, Dr Nkosazana Zuma, after she accused tobacco companies of flouting the law

In an address to the Senate this week, Zuma threatened to ban all cigarette advertising if the country's largest tobacco companies refused to toe the line on advertising and continued to import cigarette packets that did not have the prescribed health warnings

Johann Rupert, Rembrandt's chairman, returns fire in an irreverent open letter to Zuma in a full-page advertisement in today's Sunday Times.

At stake is an industry worth an estimated R6,56-billion a year to South Africa, on which 200 000 people depend for their livelihoods and which spends about R150-million a year on advertising

Today's outspoken "I-told-you-so" response by Rupert is the first real salvo from the industry in a tobacco war launched by Zuma the day she took office.

He writes that he found her accusation of breaking the law to be "totally unacceptable and irresponsible" and suggests she has been misled by advisers.

Rupert says the industry had warned Zuma cigarette smuggling was out of control.

"Now that you have come to the same conclusion, you apparently accuse us of breaking the law, and use the privilege of the Senate to do so!" writes Rupert.

"What can we expect in a country where law and order is in danger of total collapse — and where the smugglers are probably car hijackers and murderers?" He says that a criminal can earn R4 000 from a carload or R1-million from a container of smuggled cigarettes

The annual loss to the exchequer from cigarettes smuggled into South Africa is estimated at R20-billion a year. Customs and excise raids in September on street vendors in Johannesburg, Cape Town and Durban netted a million cigarettes in packs without warnings

Zuma's current threat of a tobacco ad ban comes in the wake of reports in July this year — denied at the time by the Health Department — that draconian draft regulations based on World Health Organisation guidelines were being circulated. Among their proposals were a total ban on advertising, hiking the minimum age of those allowed to buy cigarettes and banning the use of cigarette brand names at public cultural or sporting events.

Zuma told the Senate on Thursday that the Health Department was taking action against defaulting companies

She said police were investigating charges submitted by "individuals" against the Rembrandt Group, United Tobacco Company, R J Reynolds and Imperial Tobacco for consistently flouting strict advertising regulations

Their "evasions" included importing cigarettes without health warnings, posting billboards with warnings of the dangers of smoking that were invisible at night or minus the compulsory listing of nicotine and tar content, and newspaper and magazine adverts where the warnings were of the incorrect size and did not carry nicotine and tar contents.

Zuma, who opened a clinic in Cape Town before flying to Durban yesterday, was not available for comment. Her spokesman, Vincent Hlongwane, said Rupert's letter would be attended to tomorrow.

Tobacco boss hits out at Zuma

(198) Sowetan 21/10/96

THE Rembrant Group has hit back at Health Minister Dr Nkosazana Zuma who last week threatened to ban tobacco advertising because cigarette companies were not complying with the laws on health warnings

Rembrant chairman Johann Rupert said it was a totally unacceptable and irresponsible situation" when taxpaying companies were accused of breaking the law

In a full page advertisement in the *Sunday Times*, Rupert told Zuma she had been misled by her advisers

Entitled, "an open letter to Dr Zuma," the advertisement replies to the health minister's allegations in the Senate this week when she said tobacco companies were ignoring the laws requiring health warnings on cigarettes

Rupert blamed "cheap smuggled cigarettes" for the lack of health warnings on some brands and said his company had warned Zuma about this.

Lose revenues

He said he had also warned that the Government would lose revenue because of the smuggling

"Now that you have come to the same conclusion, you apparently accuse us of breaking the law and you use the privilege of the Senate to do so!" Rupert said.

Rupert said cigarette smuggling into South Africa was out of control because of high excise duties being charged and underpayment of customs officials.

"What can we expect in a country where law and order is in danger of collapse – and where the smugglers are probably hijackers and murderers? A criminal can earn over R4 000 from a carload and nearly one million rand from a container of smuggled cigarettes," Rupert added.

He said it was "sad and ironic" that a company which dutifully paid its taxes and went out of its way to comply with the letter and the spirit of the law had being accused of breaking it. – *Sapa*

Zuma, Rupert trade shots over cigarette ads

Star 21/10/96 (198)

Cigarette baron angry over threat to ban advertising and the consequences: anti-tobacco lobby rallies to minister's defence

By Justice Malala and Stuart Kelly

Health Minister Nkosazana Zuma will meet members of her ministry and other stakeholders today to hammer out a response to the blistering attack on her by Rembrandt Group chairman Johann Rupert yesterday, following her threat to ban tobacco advertisements.

Zuma's spokesman Vincent Hlongwane said the meeting in Cape Town would deal with the attack by the giant group, one of four which Zuma has accused of flouting tobacco laws.

While Zuma found herself in the firing line, the National Committee Against Smoking yesterday came out in strong support of the minister's threat.

The committee's chairman, Professor Harry Seftel of the University of the Witwatersrand, said all cigarette advertising should be banned.

"This latest controversy is only a minor point. It seems to me that these companies will fight tooth and nail against Minister Zuma because she is the first health minister to get serious on tobacco.

"If these companies are violating the law, then the facts can be easily established. What really matters is that smoking has become a plague which is killing between two and three million people (worldwide) every year. Advertising must be banned outright," he said.

Rupert's letter, published in a full-page ad in a Sunday newspaper, marks the most serious attack yet on Zuma by the industry.

Zuma on Thursday threatened to ban all cigarette advertising and said police were investigating charges against four tobacco companies that consistently flouted strict regulations.

She told the Senate that the Rembrandt Group, United Tobacco Company, R J Reynolds and Imperial Tobacco were "evading" regulations.

In his letter, Rupert said: "It is ironic and a sad fact of our society that a company which dutifully pays its taxes, and goes out of its way to comply with the letter and spirit of the law, is now being accused by you of breaking the law."

The total annual adspend on tobacco products is R150-million, according to National Council Against Smoking director Yussuf Saloojee.

Zuma said the evasions by the tobacco companies were "importing cigarettes that do not have the prescribed warnings", "posting the billboards with warnings that are not visible at night or do not show the nicotine and tar content as per the regulations", and "advertising in newspapers and magazines with adverts that do not show warnings of the correct size and do not have the tar and nicotine content".

In his letter, Rupert said the industry had warned Zuma and her colleagues on numerous occasions that substantial increases in excise duty would result in increased cigarette smuggling.

"What can we expect in a country where law and order is in danger of collapse? A criminal can earn over R4 000 from one car hijacking, (but) nearly R1-million from a container of smuggled cigarettes," he said.

DS

Dagga to gain respectability at last – as a valuable cash crop?

Star 21/10/96 (87) (148)

The legalisation of a strain of non-narcotic hemp will put South Africa in line with the international trend that recognises its value as an abundant producer of cellulose, and a renewable source of income for the rural poor Anita Allen reports

Cannabis sativa, hemp and dagga, which many South Africans grow illegally in the most unlikely places, has a new champion in Water Affairs Minister Kader Asmal

He told a forestry industry conference last week that high-fibre hemp crops with low resin contents, that were of no use to the narcotics trade, could produce yields of fibre equivalent to wood.

The minister's remarks are in line with a recently released report by the Agricultural Research Council (ARC) on the first year of a three-year research project aimed at developing a strain of dagga that cannot be used as a drug, but will have value as a cash crop

One season's crop has now been harvested, and the second crop is about to be sown, says project leader Dr Michiel Dippenaar.

"At the moment there are many more questions than answers," he says, "and we're a long way from producing hemp as a cash crop"

The project, which is being conducted under contract for the Southern Africa Hemp Co, is looking at optimal cultivation practices, varieties, plant populations, planting time, fertiliser needs, water consumption and pest control.

Dippenaar confirmed that South Africa's first legal hemp trial near Rustenburg was just one among many in the world. Other countries interested in the commercial potential of cannabis are Holland, UK, and France, which concentrates on cultivation. Spain and Italy and most of the eastern block already plant cannabis as a commercial crop

Dippenaar emphasised that the varieties of cannabis being grown at Rustenburg were industrial varieties. They have a content of about 0,4% of tetrahydrocannabinol (THC), the chemical that gives the "high", while the strain used as a drug has 10%.

Some of the possible economically viable applications for cannabis are in the pulp, paper, textile and construction industries.

However, the potential for the cultivation of cannabis is not limited to industry "Legalisation of hemp presents a relevant and practical solution to the empowerment, development and upliftment of the majority of South Africans," says Jeunesse Park of Progreen, which has been advocating the sustainable utilisation of cannabis.

"The pulp and paper industry will enjoy a renewable and sustainable resource. Millions of the rural poor whose only source of income is derived from the growing of dagga will benefit from the R40 000-million industry that remains the sole preserve of syndicated crime," says Park.

South Africa is currently importing hemp fibre from China and hemp clothing from First-World countries, she points out.

"We will be in line with the international trend that recognises the value of the hemp resource, and will leave behind us the disinformation and misinformation of the apartheid era that permitted the present waste of this valuable renewable resource," says Park.

The next relevant step, she says, is the decriminalisation of the growing of hemp

Opposition to cannabis comes from people who focus only on the plant's narcotic properties, while in fact it is a multipurpose plant. The demonisation of the plant is comparatively recent, because until the end of the last century it was one of the world's most important agricultural crops.

Hempen fibres have been found in some of the earliest archaeological sites from China to Asia Minor, and many strains were developed for their long and strong fibres Throughout history this was used for making rope and fabrics such as canvas and corduroy The first jeans made by Levi-Strauss were made from hemp because of its durability, and hemp sails and rope were the mainstay of sailing ships

The Chinese used cannabis to make paper as early as 2 700BC. The advantage of using the plant for paper is that it does not require much chemical treatment and its yield per hectare is competitive with trees and not so environmentally distructive

Its seed is a highly nutritious source of protein and fatty oils. In fact, cannabis may have been domesticated originally for use as a food. In times of scarcity or famine the oil-rich seeds, though not very palatable, were used for food for animals and man. In central Asia, the oil has been extracted and used for centuries for domestic purposes, for example in oil lamps. The greenish-yellow oil resembles cottonseed oil and is excellent for paints, varnishes and soap-making and in the leather industry

As a medicinal plant, Ta-ma, as cannabis is known in the Chinese Pharmacopeia, was said to have been used as far back as 2AD in a mixture to narcotiсise patients about to undergo painful surgery Up to 1937, it was still included in the US Pharmacopeia as a tranquilliser.

The true value of the plant's medicinal uses lies in the more than 60 chemicals so far identified. These are used to ease pain, relieve stress and in treatments ranging from glaucoma to relief for asthma sufferers and patients undergoing chemotherapy

Chris Conrad, president of the Hemp Industries Association in the US, believes that using hemp cellulose for essential plastic products would reduce US dependence on petroleum.

"Hemp is the most abundant producer of cellulose on the planet," he writes in his book "Hemp, Lifeline to the Future"

Closer to home, clinical studies of cannabis have rarely been reported and as long as the plant is demonised, there is little chance that information will enter the public arena. Hopefully, all that is now set to change since Asmal has now made it a respectable topic of discussion.

VIJAY GOVENDER

Zuma's 'smoke signals' out today

CT 21/10/96 (198)

OWN CORRESPONDENT

JOHANNESBURG: Health Minister Dr Nkosazana Zuma will hold a top-level meeting today to formulate a response to the blistering attack on her by Rembrandt Group chairman Mr Johann Rupert yesterday following her threat to ban tobacco advertisements.

Rupert's letter, published in a full-page advertisement in a Sunday newspaper, marks the most serious attack by the industry yet since Zuma declared war on smoking.

The National Committee against Smoking's chairperson, Professor Harry Seftel of the University of the Witwatersrand, supported Zuma's call, saying that all cigarette advertising should be banned regardless

"What really matters is that smoking has become a plague which is killing between two and three million people every year," he said.

Seftel added that the laws were far from sufficient and need to be brought into line with the far more stringent regulations of Europe where advertising was totally outlawed, even to the extent of removing billboards that find their way onto television screens

The total annual adspend on cigarette and tobacco products is R150-million, according to the executive director of the National Council Against Smoking, Mr Yussuf Saloojee.

Zuma on Thursday threatened to slap a ban on all cigarette advertising and said police were investigating charges against four tobacco companies — the Rembrandt Group, United Tobacco Company, RJ Reynolds and Imperial Tobacco — that consistently flouted strict advertising regulations.

In his letter, Rupert said that on numerous occasions the industry had warned Zuma and her colleague that substantial increases in excise duty will result in increased cigarette smuggling

This means there would be cigarettes on the market without health warnings and that the government would lose tax revenue

"What can we expect in a country where law and order is in danger of collapse — and where the smugglers are probably car hijackers and murderers?" he asked.

TO REPLY: Dr Nkosazana Zuma

Trans Hex unit completes warrant issue

(198) CT(BR) 21/10/96

Maggie Rowley

Cape Town — Trans Hex International, the international subsidiary of the Rembrandt-controlled Trans Hex group, has completed the issue and sale of 6,5 million special warrants, or options, for just over C$18 million (about R60 million)

The company, which is quoted on the Canadian Dealing Network, will use the proceeds of the special warrant offering to fund exploration on its diamond properties in the Central African Republic, Indonesia, Zimbabwe, Namibia and Brazil

Each special warrant, which cost C$2,75, entitles the holder to acquire one share and one half of a share-purchase warrant in Trans Hex International at no additional cost

Each whole share-purchase warrant will entitle the holder to purchase one share in Trans Hex International for a period of two years after the closing of the offering, at C$3,15 a share for the first year, and C$3,80 a share thereafter

Before the special warrants exercise, Trans Hex owned 96,2 percent of Trans Hex International's issued shares

Until the share purchase warrants are issued, Trans Hex International will have just over 9,8 million shares in issue, of which Trans Hex will hold 72,9 percent

After the share purchase warrants are issued, there will be over 14 million Trans Hex International shares in issue on a fully diluted basis, with Trans Hex holding 65,4 percent of them

CAPE ARGUS, TUESDAY, OCTOBER 22, 1996

Zuma set to act on tobacco ads

Dispensing ban averted

(198) ARG 22/10/96

HEALTH REPORTER AND SAPA

Health minister Nkosazana Zuma is set to call a meeting of health industry representatives to discuss her proposed ban on tobacco advertising.

Dr Zuma said that a five-year study at the Harvard University School of Public Health had suggested that cigarette smoking would be the largest cause of death and disability in the world within 25 years.

She said the World Health Organisation had recommended a ban on tobacco advertising – which last week she threatened to enforce in South Africa – limits on smoking in public places and regular increases in taxes.

Dr Zuma has meanwhile done an about-turn on the issue of doctors dispensing medicines, withdrawing proposed regulations that would have stopped them doing so.

The Medical Association of South Africa (Masa) has welcomed the decision, saying the controversial regulations would have caused severe hardship for many patients, and contradicted the objective of broadening access to health care.

The Department of Health received more than 300 submissions on the proposed regulations.

Dr Zuma said the principles on which the regulations were based stood, and that her department would publish revised regulations soon.

Masa chairman Ivan McCusker said the association applauded Dr Zuma's decision and would throw its full weight behind all initiatives to provide comprehensive quality health services in South Africa

A total of 491 elected officials (400 second month in each calendar year

Investigation launched to blitz ghost workers

(214) (198)

Farouk Chothia

BD 22/10/96

DURBAN — KwaZulu-Natal director-general Otty Nxumalo would spearhead an investigation to bring to an end the estimated payment of R1,5bn a year to non-existent public servants in the province, finance MEC Ben Ngubane announced yesterday.

The decision was taken at a meeting attended by Ngubane, Nxumalo, treasury secretary Sipho Tshabalala, auditor-general Chris Foster and members of the legislature's public accounts committee, in response to widespread concern over "ghost" payments.

Ngubane said Nxumalo and Foster had been requested to employ a consortium of auditors to conduct the first phase of investigations. It would have to complete its work by the end of next month.

ANC MP Mike Sutcliffe said the consultants would identify problems in the personnel salary system. This would include names of public servants appearing more than once and people of retirement age listed for payment

The consultants would report on a weekly basis to Nxumalo and committee members, Sutcliffe said.

Ngubane said the problem had arisen as a result of the amalgamation and rationalisation of departments. He said both the executive and legislature were committed to finding solutions.

Foster said at the weekend that public servants who had resigned were still drawing salaries. Sutcliffe said there were reports of teachers who drew salaries but were never at school.

A second phase of investigations would identify culprits and legal steps would be taken against them.

Zuma vows to intensify fight

Kathryn Strachan

(198)

SA HEALTH Minister Nkosazana Zuma vowed yesterday to intensify her anti-smoking campaign in the wake of a scorching attack by Rembrandt Group chairman Johann Rupert.

She would do everything in her power and within the confines of the constitution to ensure that ever fewer children smoked in SA. Making cigarettes less affordable and banning advertising were important elements of her plan to do this, she said.

The World Health Organisation had recommended banning tobacco advertising and promotions, but she stopped short at announcing any plans to put that recommendation into effect.

Rupert's attack came after Zuma said police were investigating charges against four tobacco companies flouting advertising regulations.

BD 22/10/96

Star 22/10/96

Zuma cites WHO in fight against tobacco industry

198

By Political Staff and Sapa

Health Minister Dr Nkosazana Zuma yesterday hit back at Rembrandt boss Johann Rupert, citing the World Health Organisation's recommendations to back up her war against the tobacco industry

Zuma is also set to call a meeting of health industry stakeholders to discuss her proposed banning of tobacco adverts

Zuma said a study by the Harvard University School of Public Health found that within 25 years cigarette smoking would be the largest cause of death and disability in the world

She said the WHO had recommended a ban on tobacco advertising and promotions, strict regulation of smoking in public places, reducing the access of youths to tobacco and regular increases in tobacco taxes.

On Thursday Zuma threatened to slap a ban on all cigarette advertising and said police were investigating charges against four tobacco companies that "consistently flouted advertising regulations"

In response, Rupert published a full-page letter in the Sunday press saying, among other things, that cigarette packets without health warnings had been smuggled into SA by criminals

▶ Tobacco stocks survive the heat

Zuma defends stand on tobacco

(198) CT 22/10/96

HEALTH Minister Dr Nkosazana Zuma hit back at Rembrandt boss Mr Johann Rupert yesterday, citing World Health Organisation recommendations to back up her war against the tobacco industry

Zuma, who was savaged by Rupert in newspaper advertisements at the weekend, drew on a five-year study by the Harvard University School of Public Health

The study had found that within 25 years cigarette smoking would be the largest cause of death and disability in the world.

She said the WHO had recommended a ban on tobacco advertising and promotions, strict regulation of smoking in public places, reducing the access of youths to tobacco and regular increases in tobacco taxes

She said tobacco advertising glamorised smoking and undermined health messages

"Making cigarettes less affordable to children and banning advertising are important elements of the strategy to reduce smoking substantially among South African children," she said

Last Thursday Zuma threatened to ban all cigarette advertising and said police were investigating charges against four tobacco companies that flouted advertising regulations — Political Staff, Sapa

ADVERTISING *Tension between Zuma and Rembrandt still smoulders*

Tobacco stocks survive the heat

CT(BR) 22/10/96 (198)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Tobacco stocks ended unscathed on the JSE yesterday despite the smouldering tension between Nkosazana Zuma, the health minister, and Johann Rupert, the chairman of Rembrandt

But the shares could lose flavour today after Zuma issued another statement shortly after the market closed, repeating her threat to pursue banning tobacco advertising and hinting at further increases in taxes on tobacco

The Rembrandt share price dipped in early trade, but ended the day 10c up at R41,85 as 145 000 shares changed hands Utico, another JSE-listed cigarette and tobacco company, was untraded at R15,10, but was bid substantially lower at R12

Zuma threatened to ban all tobacco advertising at the weekend, alleging that certain tobacco companies' products failed to display the regulation health warnings

This prompted a strongly worded "I-told-you-so" response from Rupert, who blamed high excise duties on tobacco for a surfeit of illegal imports which are sold without the required health warnings

Zuma warned that the anti-smoking campaign would be intensified and argued that tobacco advertising glamourised smoking and undermined health messages

"When cigarettes are cheaper it is easier for children to buy them Making cigarettes less affordable to children and banning advertising are important elements of the strategy to reduce smoking substantially among South African children," said Zuma

There was no counter from the Rembrandt Group last night, but Stuart Sutherland, the managing director of Utico Holdings, came out in strong support of Rupert's statement at the weekend

"It's sad to see this reach the newspapers before the government even gave us a chance to properly debate the issue or to get feedback on what we were supposed to have done wrong

"Dr Zuma is wrong in making these accusations We have bent over backwards to adhere to the regulations We find it repugnant that we are accused of flouting the laws"

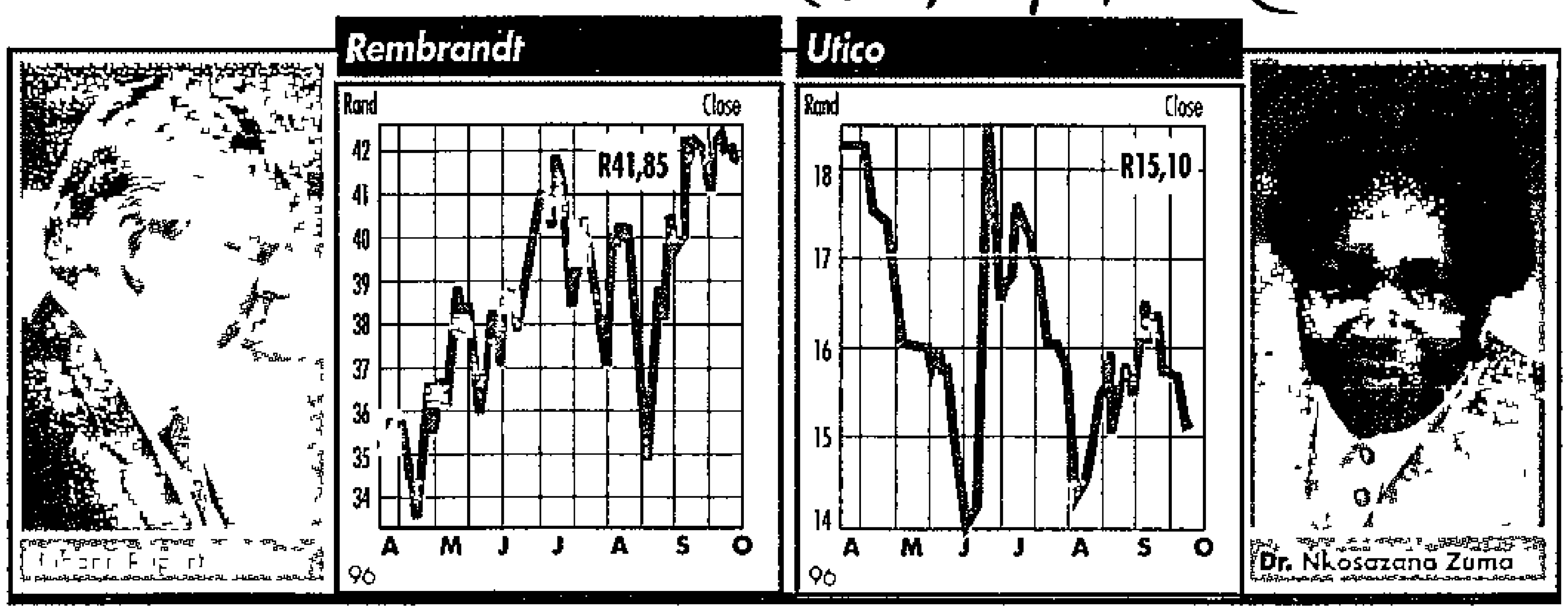
Carel Oosthuizen, the head of research at SMK Securities, a local stockbrokerage, said although Zuma strongly suggested that government would consider radical action in the tobacco industry, investors would not be seriously spooked

"Rupert specifically mentioned that illegal cigarette imports were coming into the country without health warnings at Rembrandt's AGM in August He has been open about the issue and has kept investors abreast of developments From this perspective investors should be re-assured"

Oosthuizen said, however, that the tobacco industry was moving into a different era where the government was clearly antagonistic towards tobacco products This was reflected in the increased excise duties

He said the Rothmans Group, Rembrandt's tobacco associate, generated R35 billion in excise duties in its international and local markets

"This is roughly 25 percent of this country's budget If you cut this figure out of certain countries' budgets, it could add as much 1 percent to their deficit," said Oosthuizen



SLANGING MATCH *Rembrandt and Utico share prices failed to respond to the latest attack on the tobacco industry by Nkosazana Zuma, the health minister, yesterday, but may come under pressure this week*

SA cigarettes exported – then smuggled back

(198)

Nov 23/10/96

Criminals face crackdown as country loses R20-billion in revenue annually

By Priscilla Singh

A customs task force has uncovered a new method of cigarette smuggling in South Africa and is cracking down on smugglers – especially vendors and retailers – who are costing the country R20-billion a year in revenue

Smugglers have adopted the international route of round-tripping as a new way to evade paying customs taxes They are exporting cigarettes manufactured in SA to other countries and then smuggling them back.

Johan Beets, chairman of the Department of Finance's customs and VAT law-enforcement caucus of the customs law-enforcement task group, said there had been a significant increase in the number of cigarettes smuggled into SA in the past year

He attributed the jump to the latest method used by smugglers and said that there had also been increased complaints by the tobacco industry about the racketeering

"There is a definite link between the customs taxes and the increased smuggling and whenever there is a tax incentive, people will smuggle If a high excise commodity such as cigarettes is brought into the country without paying excise duty and VAT, then the profit is much higher.

"The cigarettes are coming in from all over the world – the USA, Europe and even Africa. What is also happening is that the cigarettes, mainly for export, are being diverted with falsified acquittal documents," Beets said.

He issued a stern warning to vendors and retail cafes who bought the smuggled goods, saying "Don't buy the stuff, or we'll just take it from you."

Furthermore, the majority of smuggled cigarettes did not have the mandatory health warnings printed on the packets, he said

Anti-smoking council challenges Rupert

(198) BD 24/10/96

Kathryn Strachan

THE National Council Against Smoking has entered the "open letter" tobacco war, contesting Rembrandt Group chairman Anton Rupert's claims that his company has not broken the law

In an open letter, to be published tomorrow in various newspapers, council chairman Harry Seftel and executive director Yussuf Saloojee said they could substantiate numerous cases where the health warning regulations had been contravened

The council challenged Rupert's statements — made in his open letter to the health minister earlier this week — on how the increased excise tax had resulted in government losing tax revenue and in greater cigarette smuggling

Recent increases in tobacco excise duties had resulted in higher government revenues and reduced smoking, it said. In the first nine months of last year, compared to the same period in 1994, government cigarette tax revenues rose 32,5%, while cigarette consumption dropped 2,2%

"Lowering tobacco taxes would, however, result in a loss of government revenue, and a rise in tobacco industry sales and profits So the main beneficiary will be the tobacco industry and the main loser public health," the council said.

Cigarette smuggling had increased in SA as had smuggling of many other products, and decreasing the excise tax on cigarettes would not end smuggling, it said.

The real long-term solution to tobacco smuggling was to reduce public demand for it, and the best way of doing this was to ensure children did not start smoking.

Banning of tobacco (198) ads 'good policy'

ARG 24/10/96

MEDICAL CORRESPONDENT

Banning tobacco advertising is responsible government policy, not punishment or infringement of human rights, says Judith Mackay, director of the Asian Consultancy on Tobacco Control

Professor Mackay said that around the world the tobacco industry used the argument of an increase in smuggling to dissuade governments from raising taxes.

In response to the fracas between Rembrandt chief Johan Rupert and Health Minister Nkosazana Zuma, Professor Mackay said cigarette smuggling posed a considerable threat to government attempts at tobacco controls.

But Hong Kong had employed a 40-person customs and excise squad specially to deal with cigarette smuggling and this had considerably reduced it

Council comes out smoking

198

Rembrandt's statements about cigarette smuggling and health regulations challenged

Star 24/10/96

By Janine Simon
Medical Correspondent

The National Council Against Smoking has written its own open letter to tobacco magnate Johann Rupert, contesting his claims that the Rembrandt Group has stuck by the law on health regulations and that higher excise taxes have opened the way to greater cigarette smuggling

In the letter, to be published tomorrow, the council says that, contrary to Rupert's claims, recent increases in tobacco excise taxes have resulted in higher government revenues, and reduced smoking

In the first nine months of 1995, compared with the same period in 1994, government cigarette revenues increased by 32,5% while cigarette consumption dropped by 2,2%

Cigarette smuggling had increased in South Africa, along with smuggling of other items such as TVs, hi-fi sets, drugs, tyres and other products, says the letter, signed by executive director Dr Yussuf Saloojee and chairman Dr Harry Seftel.

The tobacco excise tax rate was already among the lowest in the world Lowering it would not end smuggling as smugglers would switch to other goods

It would, however, result in a loss of government revenue and a rise in tobacco industry sales and profits

"The main beneficiary will be the tobacco industry, and the main loser, public health," the letter says.

The long-term solution to smuggling would be to reduce the public demand, and increasing the price and banning tobacco advertising were two of the best ways of ensuring children did not start to smoke, thus reducing demand

Regarding Rembrandt's compliance with the law, the council said old cigarette stock without health warnings, including Rembrandt Group brands, were still being sold today

This was in direct contravention of an agreement with the department, acknowledged in writing by the Tobacco Institute of South Africa, that this could be done only until October 31 1995.

The minister detailed many other examples of contraventions of the regulations in the Senate, and the council could substantiate these, the letter says.

Ad ban 'a responsible policy'

Medical Correspondent

Banning tobacco advertising would be responsible government policy, not some kind of punishment or infringement of human rights, says Professor Judith Mackay, director of the Asian Consultancy on Tobacco Control.

Mackay, who was recently in South Africa and drew parallels between African and Asian experiences in tobacco controls, said that around the world, the tobacco industry used the argument of an increase in smuggling to dissuade governments from raising taxes.

Call to step up ways to protect health

In response to the fracas between Rembrandt chief Johann Rupert and Health Minister Nkosazana Zuma, Mackay said cigarette smuggling posed a considerable threat to government attempts at tobacco controls, but that the answer was to enforce, not back off, measures to protect health.

Zuma has threatened to ban tobacco advertising, saying tobacco companies are flouting the law regarding health warnings.

Rupert denied the claim, saying the Government had failed to crack down on cigarette smuggling

Mackay said the Government should not have an either/or approach to banning tobacco advertisements

Smuggling activities meant tobacco companies circumvented import taxes and restrictions on sales outlets for legally imported cigarettes, she said.

Companies sold their legal cigarettes at the normal price, but the Government lost revenue and more children smoked because there were cheaper, more affordable cigarettes on the market

The Hong Kong government had employed a 40-person customs and excise squad specifically to deal with cigarette smuggling and this activity had been considerably reduced, she added

US findings fuel SA 'tobacco war'

(198)

Kathryn Strachan

A MAJOR US study released last week, which shows for the first time the direct link between cigarette smoke and cancer, has fuelled the local "tobacco war"

The case against smoking has until now rested largely on the evidence that 90% of people in the US with lung cancer are smokers.

While this is a very strong indication tobacco causes cancer, the exact chemical in the smoke which causes cancer and its precise process has eluded scientists

And it was this "missing link" the tobacco industry had latched onto in its case for smoking

The Californian study, published in leading US journal Science, found a chemical in cigarette smoke damages a gene in lung tissue which normally prevents uncontrolled cell growth The study reports that benzo(a)pyrene — found in cigarette smoke tar — is directly involved in transforming normal lung cells into cancer cells

Researchers at the City of Hope, a leading cancer research and treatment centre in California, found that the gene damage caused by benzo(a)pyrene matches exactly with several mutational "hot spots" specific to lung cancer, indicating the chemical systematically damages lung tissue

The study came at an opportune time for SA's anti-tobacco campaign, which has wasted no time in using it in its battle against the industry

The stock of US cigarette manufacturers Phillip Morris and RJR Nabisco fell last Friday, after news of the study was released.

BD 25/10/96

SAB

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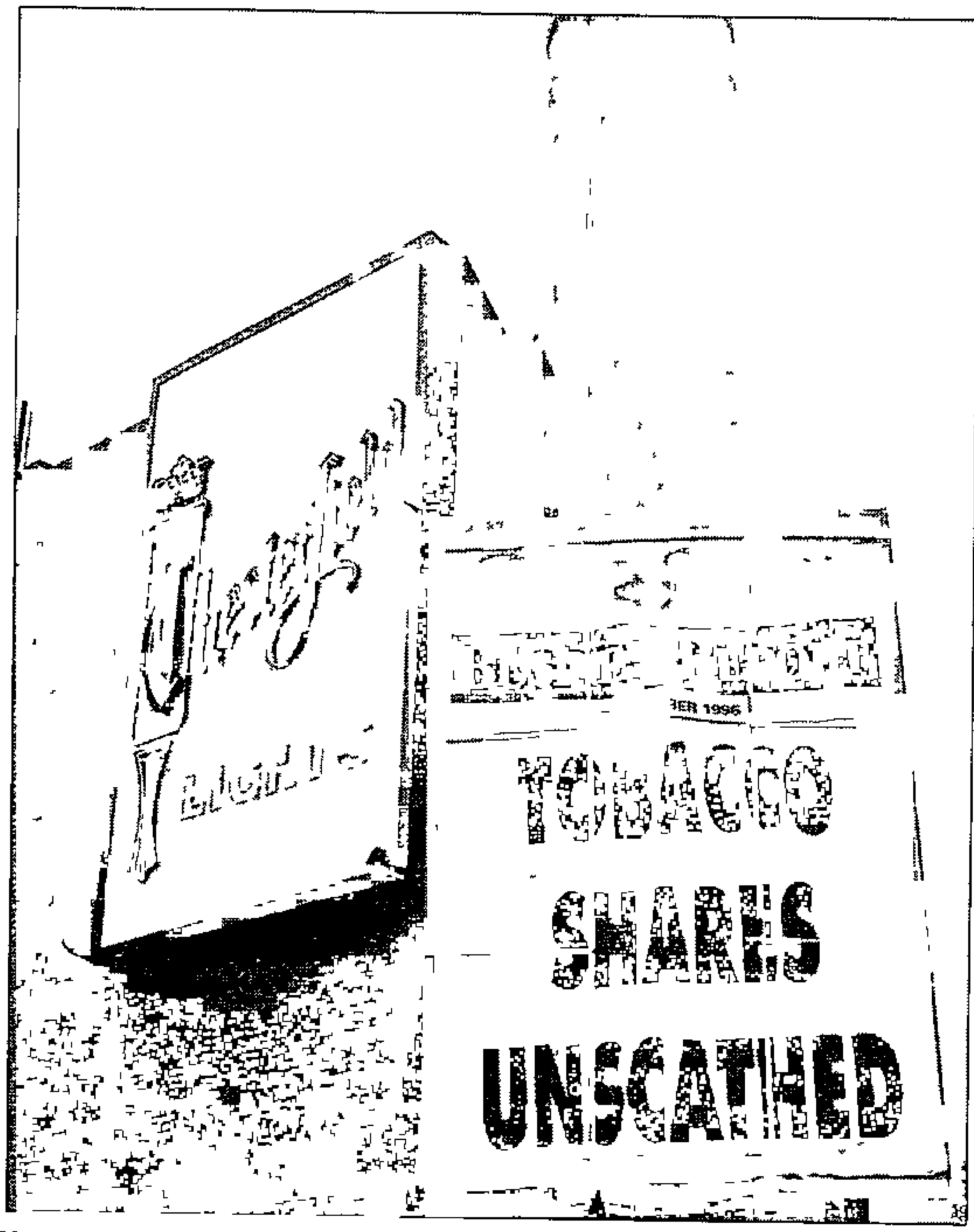
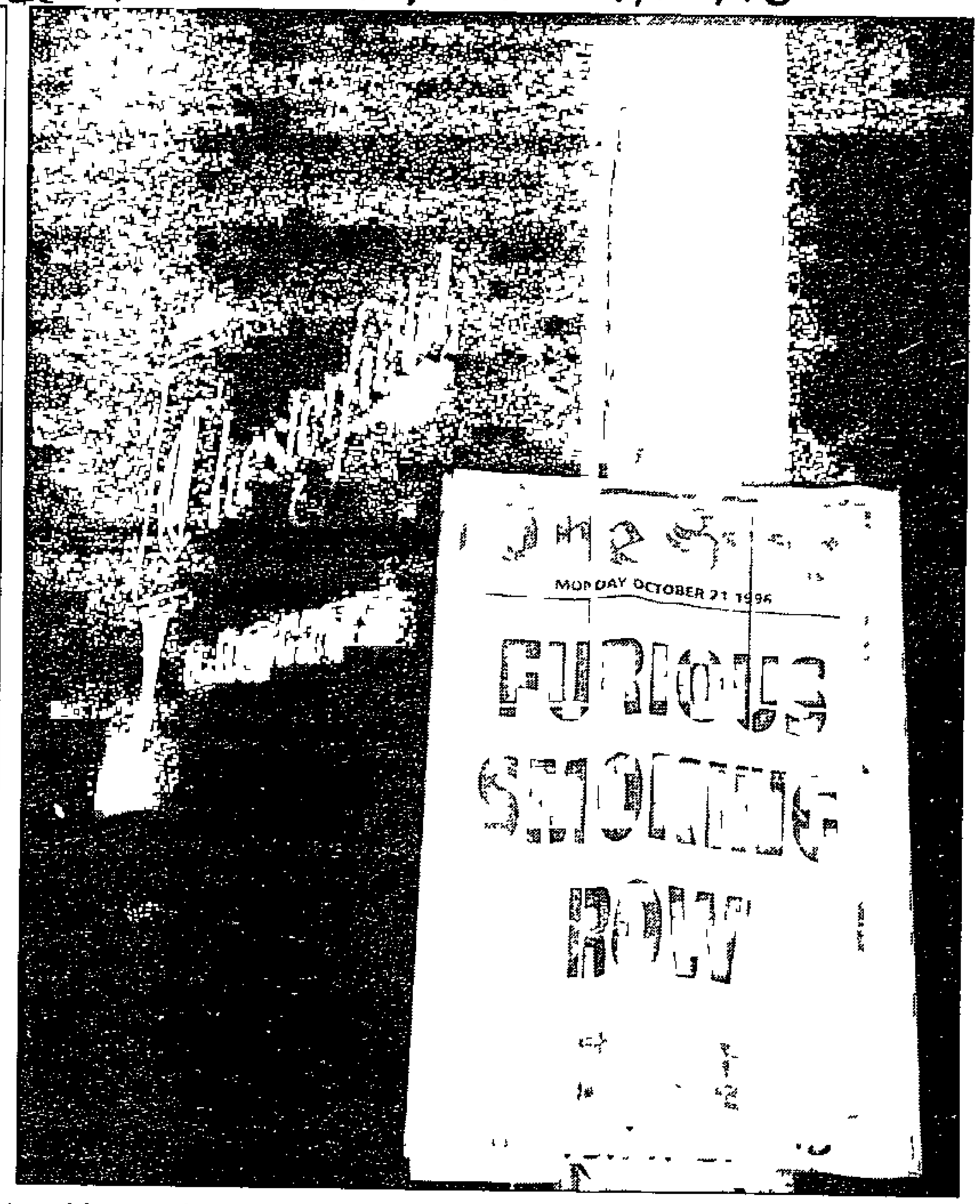
Tobacco lobby may have met its match

(198) M+G 25-31/10/96

Battle-scarred Zuma has some strong support in her Health Ministry's latest war, reports **Stefaans Brümmer**





Now you see it, now you don't A billboard whose health-warning sign is not visible at night

PHOTOGRAPHS STEFAANS BRÜMMER

HEALTH Minister Nkosazana Zuma may have a reputation for tilting at windmills but for once her opponent — the fabulously powerful tobacco lobby — may have met its match Zuma is backed by a strong body of international opinion and by signs that her anti-smoking measures are paying off

Zuma is still smarting from a recent defeat by pharmaceutical companies who threatened court action unless she dropped plans to force the prescription of cheaper generic medicines Zuma withdrew the "offending" parts of her draft legislation, saying they would be redrafted

But last week she did it again, starting a small war by provoking tobacco magnate Johann Rupert to an unprecedented attack

What Zuma did was tell the Senate that cigarette companies were flouting her Tobacco Products Control Act regulations on cigarette health warnings Zuma named the offenders as the Rembrandt Group, of which Rupert is chair, as well as United Tobacco Company, RJ Reynolds and Imperial Tobacco — and said she was considering a complete ban on tobacco advertising

Zuma listed the violations as the importation of cigarettes without the prescribed health warning, advertising on billboards where the health warnings were not visible at night or inadequate, and ads in the print media where the warnings were too small or did not show tar and nicotine content

Zuma already had the tobacco lobby complaining that their "freedom of speech" was being infringed when she brought out her health warning regulations in December 1994 — warnings which anti-tobacco groups pointed out merely brought South Africa in line with many developed countries But this time, by threatening to ban tobacco advertising altogether, she made a frontal assault on one of the most powerful interest groups in the country

The tobacco industry is reportedly worth more than R6-billion to the South African economy and supports about 200 000 South Africans The National Council Against Smoking (NCAS) says R150-million is spent annually on tobacco advertising The South African Revenue Service estimates government coffers will be swelled by about R1,16-billion by excise duties on locally manufactured tobacco products alone in the current financial year

The Rembrandt Group last year ranked eighth on the Johannesburg Stock Exchange (JSE) in terms of market capitalisation, while its Swiss-registered sibling Richemont ranked fourth on the JSE (after Anglo American, De Beers and South African Breweries) Both are controlled by the Rupert/Hertzog dynasty, headed by Rembrandt founder Anton Rupert — one of the select group of businessmen who serve on President Nelson Mandela's "Brenthurst" advisory group Richemont boasted a R28,7-billion capitalisation last year (Rembrandt R18,3-billion) and a pre-tax profit of R4,6-billion (Rembrandt R1,4-billion)

Stockbroking analyst Carel Oosthuyzen was quoted this week as saying Rembrandt/Richemont tobacco associate, the Rothmans Group, generated R35-billion in excise duties worldwide "This is roughly 25% of this country's Budget If you were to cut this figure out of certain countries' budgets, it could add as much as 1% to their deficit "

So it was not surprising that Rupert went on the counter-offensive with a full-page open letter to Zuma in the Sunday press, saying "It is ironic and a sad fact of our society that a company which dutifully pays its taxes, and goes out of its way to comply with the letter and spirit of the law, is now being accused by you of breaking the law "

Rupert said Zuma had been warned often that cigarette smuggling would increase as a result of increased excise duties He went on to say that in 1993, "in a law-abiding country like Canada, smuggled cigarettes increased to over 40% of the total market As in South Africa, this was due to high levels of excise duties The Canadian government lost tax revenues and, due to the availability of cheaper smuggled products, consumption did not decrease "

There is, however, a considerable body of evidence which appears to contradict much of what Rupert said — and which appears to support Zuma's argument that the best way to decrease smoking is to discourage new smokers, especially teenagers, by banning advertising and further increasing excise taxes on tobacco products

About 22 Western countries have complete or near-complete advertising bans, in line with a May 1990 World Health Organisation resolution And South Africa, in spite of increases in excise and import duties in recent years, still levies lower taxes than most South Africa's 1995 cigarette excise of 38% of retail value compares unfavourably with, for example, Zimbabwe's 50%, the United Kingdom's 76%, Denmark's 85% and Brazil's 74%

And government statistics appear to make nonsense of Rupert's argument that higher taxes will lead to more smuggling to the extent that state coffers will suffer and smoking will increase

In a retaliatory open letter written this week to Rupert, the NCAS pointed out that in the first nine months of 1995, compared to the same period in 1994, wholesale cigarette sales dropped by 2,2%, while cigarette tax revenues increased by 32,5% — from about R825-million to about R1,09-billion, according to Department of Finance figures

The NCAS says in the letter "Yes, cigarette smuggling has increased in South Africa, as has smuggling of televisions, hi-fi sets, drugs, tyres and other products Decreasing the excise tax on cigarettes will not end smuggling The smugglers will simply switch from tobacco to other goods Lowering tobacco taxes will, however, result in a loss of government revenue, and a rise in tobacco industry sales and profits "

The *British Medical Journal* in May agreed that cigarette smuggling into Canada increased with increased taxes, but said total consumption (including of smuggled cigarettes) decreased by 40% between 1982 to 1991 as taxes increased When the taxes were lowered again in February 1994 to curb smuggling, smoking increased immediately and tobacco tax revenues dropped

Although Rupert said Rembrandt had gone "out of its way to comply with the letter and the spirit of the law", there is little doubt that the law on health warnings in advertising is often breached The *Mail & Guardian* this week photographed a Chesterfield (one of Rupert's brands) billboard advertisement in Johannesburg where the warning is not lit up at night, while the "Chesterfield" neon lettering is clearly visible

The Department of Health supplied the *M&G* with details of a number of cases which have been reported to police by individuals These included complaints about breaches of the law on billboards in print media and in point-of-sale advertising material A Cape Town state prosecutor this week said she had knowledge of a number of cases where offenders had paid admission of guilt fines before it came to trial She said offenders could also still get off with warnings, as the rules were "relatively new"

Zuma denies agreement

CT ~~AAG~~ 25/10/96

(198)

HEALTH MINISTER Dr Nkosazana Zuma had not reached any agreement with Rembrandt Group chairman Mr Johann Rupert following Sunday's open letter in which the tobacco magnate attacked the government on its anti-smoking and policing policies, health spokesman Mr Vincent Hlongwane said last night

He was commenting on an unsigned statement on a Rembrandt Group letterhead faxed to Sapa which read "A joint agreement has been reached between government and the Rembrandt Group not to continue in public the debate on the issues raised by Johann Rupert"

Hlongwane said "From our side there is no agreement The minister has not met anyone from the tobacco industry.

"We dissociate ourselves fully from that statement"

Hlongwane, who earlier confirmed a meeting between Zuma and Rupert, said yesterday the meeting had not taken place

Rupert had asked for the talks to be rescheduled because of a previous engagement and the two would probably meet today instead

The meeting has been prompted by Rupert's attack on Zuma in a full-page advertisement in the Sunday press in response to the minister telling Parliament tobacco companies were flouting the law on health warnings

Zuma also threatened to slap a ban on all cigarette advertising if tobacco companies failed to adhere to health warning regulations

Hlongwane said that Zuma, instead of reacting to the attack, had merely recommitted her ministry to its anti-smoking campaign and promoting of healthy lifestyles — Sapa

Rembrandt expected to raise its profit 25%

CT (BR) 6/11/96 (198)

Marc Hasenfuss

Cape Editor

Cape Town — The Rembrandt Group, the tobacco and industrial conglomerate, should post at least 25 percent profit growth for the six months to September 30

Market sources believe the company, which reports its half-year results at the end of the month, could also surpass market forecasts of earnings a share of R3,55 in the year to next March 31

Interim dividends for Rembrandt and stablemates Rembrandt Controlling Investments, Technical Investment Corporation and Technical and Industrial Investments which are traditionally declared well in advance of the publication of results, were all up 20 percent

However, David Sylvester, a stockbroker at TA Securities, said the 20 percent increase in dividends was not a proper indication of the results "The dividend cover has been reduced over the years and the market would be disappointed with an earnings increase of below 25 to 30 percent"

He said tobacco would again be the star performer Solid contributions were also expected from Absa Sage, Vodacom, Medi-Clinic and Trans Hex

One industrial analyst canvassed yesterday said profit from Rothmans International, Rembrandt's 33 percent-held tobacco associate, would be helped markedly by the weakening rand

"We'll definitely see the benefits of the weaker rand with roughly half the company's earnings being sterling denominated," he said Rand-hedge earnings from Gencor, Gold Fields and, to a lesser extent, Trans Hex would also bolster the bottom line, Sylvester said

He declined to make an interim profit prediction, but said Rembrandt looked set to achieve full year earnings growth of about 28,5 percent "We were initially quite conservative and had pencilled in earnings of about R3,50 but now have revised this upward to R3,65 a share"

He said Rembrandt's concern about a rise in cigarette smuggling had rubbed off on market sentiment, but said this development was unlikely to hit the bottom line in the coming year

He pointed out that Rembrandt was trading at a roughly 15 percent discount to its net asset value of R49,25 a share

Advertising ban will curb free choice, says tobacco industry

By Norman Chandler
Pretoria Bureau

(198)

The tobacco industry has come out smoking over the issue of tobacco advertising.

It says a threatened ban on advertising tobacco, a campaign led by the Department of Health, flies in the face of international experience and is contrary to individuals' freedom to make up their own minds about cigarettes.

"Some opponents believe that all tobacco advertising should be banned They maintain that if you remove tobacco advertisements, you will stop present smokers from smoking and you will slow down, or even stop, those who take up smoking, particularly young people," says the Tobacco Institute of Southern Africa (Tisa)

Governments and opponents of the tobacco industry have agreed that advertising plays only a small part in a person's decision to smoke or not, claims Tisa

"Tobacco advertising has only in recent years become an issue internationally because it represents the public face of something which the opponents of the industry want to get rid of," says Tisa

In some countries – such as Finland, Italy, Iceland, Singapore and Norway – it says, more people, in particular teenagers, started to smoke after advertising was either banned or restricted

The institute adds. "Bans on advertising do not work because they are not effective in curbing smoking. Research shows a decision by a person to start smoking is influenced by what his or her family and friends enjoy doing

"Opponents continue to promote advertising bans because they are opposed to smoking, regardless of the fact that smoking is perfectly legal and is enjoyed by adults who are quite capable of making complex decisions"

Industrialist Anton Rupert, who founded his business empire on cigarettes, recently crossed swords with Health Minister Nkosazana Zuma over the issue of tobacco advertising.

Star 2/12/96

CT (28) 2/12/96

Tobacco expected to fire Rembrandt profit

Tobacco profit will once again fire robust earnings growth at the Rembrandt Group, which has been hemmed in only slightly by poor performances from some industrial interests, analysts said on Friday. The investment holdings company is expected to release its results for the six months to September 30 this afternoon. Analysts expected earnings a share before exceptional items, including the share of net income retained by associates, to climb to between 160c and 162,6c, with consensus at 161c, 26 percent up on last year's 128c. The company declared an interim dividend of 29,4c in August, up 20 percent on last year's 24,5c. Dave Southey, an analyst at Edey Rogers, the brokerage, estimated tobacco profit would be up about 35 percent. Analysts said the group's results would have been even better if not for the R164,4 million loss at Rainbow Chicken, its poultry investment, and the R11,7 million loss at Hunt, Leuchars & Hepburn, Rainbow's parent. Rembrandt owns 82,9 percent of Hunt. — Reuter, Johannesburg

(198)

Rembrandt comes out smoking in half-year results

(198) CT (BR) 3/12/96

Marc Hasenfuss
CAPE EDITOR

Cape Town — The Rembrandt Group, the tobacco and industrial conglomerate, reported a better-than-expected 36,5 percent increase in net income before extraordinary items to R950 million in the six months to September 30

Earnings a share came in proportionately higher at 174,7c a share, easily beating forecasts of an increase of 27 percent to about 162c In line with Rembrandt policy, the interim dividend of 29,4c was declared in August and paid in October

The core tobacco interests fired up the bottom line with tobacco and liquor interests, Rembrandt's trademark group, lifting its contribution to the bottom line by 37 percent to R492 million

An analyst said Rembrandt's interim performance, especially the tobacco interests, was at the top end of market expectations

Rembrandt's share of Rothmans International Holdings's net income was R456,4 million The group earned R335 million from its former South African tobacco interests during the comparable period last year

Rembrandt holds a 33 percent stake in Rothmans International

Gencor, Gold Fields and Trans Hex, the company's mining interests, increased their contribution to the bottom line by 33 percent to R177 million

Corporate and other interests, mainly in Medi-Clinic and Vodacom, delivered 58 percent more at R125 million

Thys Visser, Rembrandt's managing director, said yesterday that Vodacom, the cellphone service provider, had contributed positively to the bottom line

The higher interest rates also helped Rembrandt's corporate division make the most of returns from its R1,88 billion cash pile

Rembrandt's industrial interests performed sluggishly, chipping in R50 million to the bottom line, only 6,4 percent up on last year

Rupert plans to tune in to yet more pay television

Zurich — Johann Rupert the managing director of Swiss-based Richemont, said the tobacco, luxury goods and media group was considering further investments in pay television But he said the group planned to hold on to its cash for the moment

"We are in pay television, and non-news distributing pay television, entertainment We are happy with our involvement, and as the cashflows build up in our Richemont group, we are looking to extend further investments in that area," he said. Asked where the group might expand, Rupert said "If I knew, I wouldn't tell you If I look at smart investors in many parts of the world, they are looking at building up some liquidity for the downturn that will inevitably follow" — Reuter

☐ **Business Watch, Page 16 and TV interests, Page 19**

Remgro lights up as profits roar ahead

(198)

ARG 3/1/97

BUSINESS REPORTER

With government measures to curb smoking and anti-tobacco lobbies going all out to bring their message across, one might have expected to see tobacco companies hold their breaths on high profits.

The Rembrandt Group's financial results for the six months to September 30 show no need for a sigh of relief

Just one reason for celebration is Rothmans International Holdings' (RIH) five percent higher sales figure worldwide than the corresponding period last year - a company in which the Rembrandt Group owns one third interest after exchanging its fomer wholly-owned tobacco interests for an investment in RIH from October 1995

Rembrandt's share of the net income of RIH for the six months under review amounted to R456,4-million and its income from the former southern African tobacco interests for the comparable period last year amounted to R334,9-million

For the six months under review, Rembrandt's results showed a 36,5 percent increase in net earnings from 128,0 cents to 174,7c per share

Operating profit in the period under review increased by 12,3 percent

The group said higher operating profit in Europe was largely due to the inclusion of the Burrus group for the three months to 30 September 1996 and, in the Americas, an improvement in operating profit was due to improved volumes and price increases in Canada.

A substantial improvement in the Pacific region was primarily due to more moderate levels of price discounting in Australia during the period

The group said a decrease in profits in Africa and the Middle East was largely due to the impact of the weakening of the South African rand

Medi-Clinic Corporation Limited, in which Rembrandt had an interest of 49,6 percent on 31 March 1996, acquired the hospital interests of the Hydromed group with effect from 1 April 1996

Additional Medi-Clinic ordinary shares of R230-million were issued to finance this transaction and, the Rembrandt Group acquired R75-million of this issue

The group's effective interest at September 30, 1996 was 46,6 percent

Criticism of tobacco control project a smoke screen, say researchers

(198) MW 13/12/96

The Tobacco Institute's criticisms of a new project on the economics of tobacco control are a smoke screen, say the project authors

The project was conducted by the University of Cape Town's department of economics in collaboration with the Medical Research Council's tobacco control research programme

Iraj Abedian, project leader and UCT professor of economics, says the Tobacco Institute is trying to protect its interests, but that it is ridiculous to cast doubt on the project reports without engaging them at the technical level

The institute has described the reports as so seriously flawed that they could not possibly serve their intended purpose of influencing government policy on tobacco taxation and advertising

The institute, which represents the major tobacco companies as well as tobacco farmers, has told Minister of Finance Trevor Manuel and Minister of Health Dr Nkosazana Zuma, that the reports are "unworthy of consideration"

But Abedian says the institute's criticisms, for example, of the estimates of cigarette consumption, are "sheer nonsense".

The study group used a tight methodological process as well as public statistics, which it had attached to the report.

He also challenged the institute's analyst – Daniel Leach of Wits University's department of business economics – to a public discussion on competent economic research – Medical Correspondent

MANUF – TOBACCO
1997

Gasp: Excise duty on cigarettes has gone up 52% PHOTO STEVE HILTON-BARBEF

Smokers hit with 'unfair' excise hike

M+G (BM) 14-19/3/97 (198)

Gustav Thiel

THE tobacco industry has been unanimous in its condemnation of the 52% increase in excise duty on cigarettes, saying it "is yet another punitive increase which discriminates against a third of the country's adults".

In his address to Parliament on Wednesday, Finance Minister Trevor Manuel said "substantial increases in the excise duties on tobacco are again proposed.

"The rate of duty on tobacco will increase by 52%, bringing the tax, including VAT, to 50% of the average retail price. Smokers will have to pay an extra 27 cents per 10 cigarettes. Pipe tobacco will cost an extra R2,49 per kilogram," Manuel announced.

The industry watchdog, the Tobacco Institute of Southern Africa has labelled the increase as "unfair and incredible".

"For the fourth year running the tax increase on smokers is outrageous. In 1994 the increase was 25%, again 25% in 1995, and 18% in 1996, every time double or three times the inflation rate. Now, it is an incredible five times inflation," said the institute.

Industry insiders have been warning since 1994 that the annual tax hikes could lead to a marked increase in smuggling and related crime. "Smuggling of illegal cigarettes, which was triggered by the 1994 and subsequent tax hikes, is now widespread, with contraband cigarettes available in all parts of the country.

"The effects of yet another tax increase on tobacco farming, on employment on farms and on employment of workers in the processing industry have been pointed out to the government. Perhaps the government should come and face the workers, who know that such excessive taxes will deprive them of their livelihood in favour of tax-free smuggled cigarettes from elsewhere," the institute said.

A researcher at the institute, Joh Groenewald, told the *Mail & Guardian* that the government had the "clear example of Canada where it was realised in 1994 that unrealistic increases in cigarette taxes had more negative than positive effects.

"When the Canadian government slashed their taxes, people reverted to smoking legal cigarettes, which put a stop to large-scale smuggling."

He added that it was important to bear in mind that smokers will not be convinced to relinquish their habit when cigarette prices increase.

"Our research shows that the amount of smokers and cigarettes smoked stayed constant in spite of the increased taxes ... In Mpumalanga cigarettes are going for 99 cents per packet which people will buy.

"If this trend is sustained, it could spell disaster for the industry," said Groenewald.

Companies say Manuel ignored tobacco warning

Stephané Bothma

FINANCE Minister Trevor Manuel had ignored repeated warnings that excessive hikes in excise duty on cigarettes would result in increased contraband activity, reduced government income and job losses, four leading cigarette manufacturers said yesterday.

In an open letter to government, SA tobacco companies Intercontinental, Transatlantic, United and RJ Reynolds (SA) said Manuel had ignored his own sound argument by levying a 52% increase in duty on cigarettes despite the fact that billions of illegal cigarettes had been smuggled into SA.

Justifying a tax cut of more than 50% in the case of some products susceptible to contraband trade, Manuel in his budget speech last week said government was "aware of the perverse effects that exceedingly high rates of duty have on behaviour".

"In many cases, the high rates of duty have provided an incentive for tax evasion, often through illicit trade or smuggling and consequently losses of tax revenue. More damaging for the overall economy is the fact that firms operating within the law and in good faith find it impossible to operate in an environment where they are constantly undercut by those operating outside the law," he said.

The cigarette companies said they found it inexplicable that Manuel had heeded this sound advice in respect of some products, yet ignored it when dealing with duty on tobacco products.

"The increase in excise duty will inevitably result in an explosion of cheaper contraband cigarettes flooding the local market." (198)

In such circumstances, excise-paid sales dropped, legal sales were replaced by smuggled goods, official volumes decreased while overall consumption was not materially affected and government revenue suffered severe losses.

BD 17/3/97

COMMENT & ANALYSIS

Increased tobacco excise duty in focus

Do increased duties on tobacco products achieve their aim of improving the health of the nation, or will they have significant undesired economic effects? Samantha Sharpe reports from Cape Town

(198) BD 27/1/97

THE battle between the tobacco industry and anti-smoking lobbyists is heating up in SA, and there is increasing evidence that government is succeeding in its bid to use taxes to curb cigarette consumption

However, there is also the possibility this might end up a hollow victory, with more cigarettes smuggled into the country and the threat of substantial job losses

SA's official strategy is part of an international trend towards strengthening measures to discourage smoking Health Minister Nkosazana Zuma's stated preference for a ban on all cigarette advertising, the introduction of health warnings on cigarette packaging and higher customs and excise duties on tobacco products is a signal of solidarity with other anti-smoking governments

Between 1994 and last year government imposed stiff duty increases on cigarettes — a move that resulted in the excise and VAT on cigarettes sold in SA rising to 41% of the retail price in April Percentages in other developing countries include Zimbabwe's 39,9%, Malawi's 41,2% and Malaysia's 29,9%

Meanwhile, customs and excise figures show a 5,4% decline in legitimate cigarette sales between March 1994 and February last year, a slump of 7,5% in the six months from April to September compared with the same time the previous year

However, while government and the anti-smoking lobby may congratulate themselves on the apparent reduction in cigarette consumption, the tobacco industry warns that this trend is only an indication of an increase in illegal imports

Tobacco industry spokesmen say the number of smokers as quoted by the All Media Products Survey rose from 7,2-million in 1994 to about 8-million last year The figures also show that not only the number of smokers, but also the number of cigarettes consumed a day increased

They say the shortfall between official consumption figures (although these exclude a small contribution from imports) must to some extent be attributable to the public's substitution of "legitimate" cigarettes with contraband.

The industry warns that Canada's attempts to curtail tobacco consumption through drastic increases in the taxes levied by the federal government — about 150% in the five years to 1991 — led to a dramatic increase in smuggling that peaked in 1993

"After 1991 the total tax incidence (federal, provincial and sales taxes) on a pack of cigarettes in some provinces approached 75% An enormous black market for cigarettes developed with criminal gangs, including the Mafia, Asian Triads and outlaw biker gangs, buying Canadian cigarettes in the US that had been exported duty-free, and then smuggling them back to Canada

"Faced with increased lawlessness and national tax losses that exceeded $2bn in 1993, the Canadian government announced massive tax cuts on cigarettes in early 1994 What happened in Canada is a model for any other jurisdiction that increases taxes on cigarettes to levels that the public perceives as unreasonable," says one industry source

"Contraband cigarettes are at this moment available in cities like Cape Town and East London at prices as low as 99c and even 60c a pack, which is less than the current excise duty alone "

It is understandable the industry would use the Canadian experience to try to justify lower duties, but it is also clear that high duties could have a negative impact on SA's economy in other ways

The Tobacco Board's latest annual reports show a significant decrease in industry employment levels in the 1994/5 financial year — to 34 854 from a previous 62 440 in 1993/4

These losses can be directly attributed to the decline in cigarette sales during the past five years, with the estimated 63 000 retailers who derive some income from tobacco sales also likely to be affected by illegal trade

The economic "toss-up" between potential job losses and health costs is not unique to SA. The European Commission was expected to propose earlier this month that the European Union strengthen measures to discourage smoking while keeping and reforming its controversial tobacco subsidy programme

EC social affairs commissioner Padraig Flynn is planning a last-ditch effort to convince his colleagues to end the tobacco subsidies programme that channels more than $1bn a year to tobacco farmers, arguing that it compromises the EU's effort to curtail its 500 000 smoking-related deaths each year

But detractors, including agriculture commissioner Franz Fischler, argue that 135 000 farmers plus 65 000 seasonal workers and tobacco processors would be put out of work without curbing smoking, since consumers would simply buy imported products Tobacco farmers would have a hard time diversifying to other products since they work on small patches of land not suitable for anything else, they say

ZUMA

University of Cape Town economics professor Iraj Abedian, who has conducted research into the economics of tobacco control, says smoking carries with it economic, social and moral costs that outweigh the employment benefits and economic stimulation of the tobacco industry

"The social and fiscal costs of the smoking industry in the form of hospitalisation and early deaths are immense and ultimately it is the taxpayer that ends up bearing the cost The fact that government's attempts to curb tobacco consumption are bearing fruit shows that they have the ability to control these economic costs and, while there might be some increase in smuggling activity, this is really a smokescreen offered by the industry to blur the real issues," he says.

"A striking feature of the cigarette industry is the decline in the real retail cigarette price over the past 24 years," he says. "In 1990 prices, the real price a packet in 1971 was about R2,58 In 1995 this had declined to R2,03 after a low of R1,48 in 1991 "

The industry has levelled criticism at Abedian's methodology, which it alleges uses inaccurate consumption data.

Abedian says it is government's overwhelming responsibility to ensure that prices do not encourage consumption He says the Canadian experience is matched by other examples pointing to the economic benefits of implementing higher excise duties.

"The key issue in the Canadian experience is not that government lost revenue because of increased smuggling, but that it lost revenue because of reduced consumption. That reduction in cigarette consumption vindicates implementing higher taxes," he says

On government's move in 1995 to include health warnings on cigarette boxes — a move which cost the tobacco companies associated with the Rembrandt group R47m — and its warnings of a possible ban on all cigarette advertising last year, the tobacco industry says the decision to take up smoking is dominated by various factors

The tobacco company officials say is it is difficult to see how advertising in a well established market could have the effect of convincing smokers to go out and buy more cigarettes than they actually need.

"Contrary to what the tobacco industry is accused of wordwide, our total marketing effort is aimed at encouraging brand switching among existing smokers Non-smokers in any event appear to be oblivious to tobacco advertising, a trend supported by several scientific studies," the industry says

Abedian disagrees strongly, saying there is increasing international evidence that advertising has a positive effect on cigarette consumption He points to research published in the American Economic Review which seeks to demonstrate that the effect of advertising is positive "Increasingly, competent international professional journals show this, and this literature is especially relevant to the current debate "

Whatever the view on increased government interference in the tobacco industry, it is clear that increased taxes and health warnings do have some kind of effect on the consumption of legally acquired cigarettes. Whether the perceived benefits to smokers outweigh the damage to a labour-intensive industry and the creation of a smuggling culture remains to be seen.

A 25% rise in final dividend augurs a strong second-half finish

Rembrandt earnings expected to dazzle

CT(BR) 7/2/97 (198)

Marc Hasenfuss

CAPE EDITOR

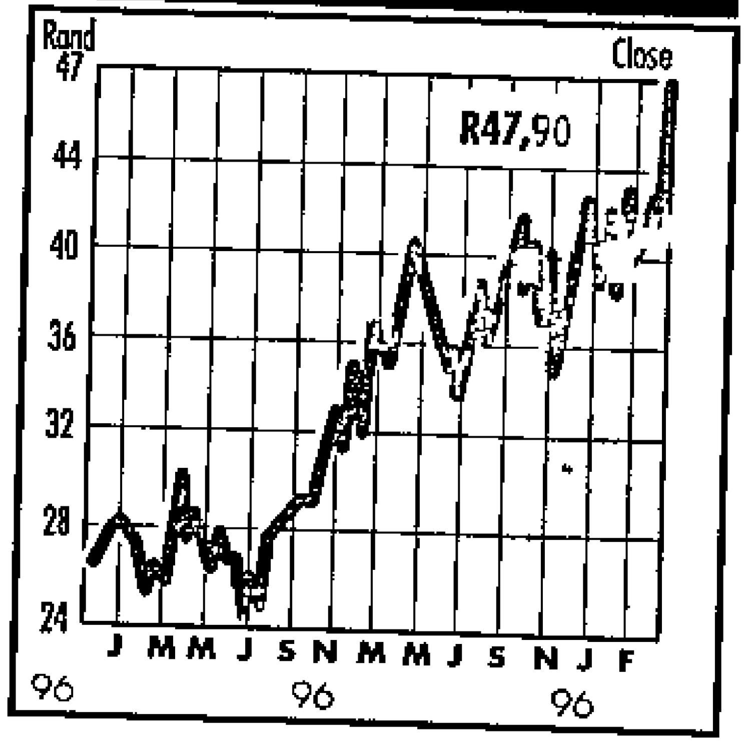
Cape Town — Rembrandt looks set for a scorching second-half finish judging by a hefty 25 percent hike in its final dividend to 47,44c a share

This brings the total payout for the year to March 31 to 76,84c a share, up 23 percent on last year's 62,45c Rembrandt traditionally declares its dividend payouts well in advance of the release of profit figures.

Carel Oosthuizen, the head of research at SMK Securities, said it appeared Rembrandt would top initial expectations of a 30,3 percent growth in earnings to R3,70 this financial year

"The half-year results were well ahead of expectations, and there's no reason that this won't continue in the second half"

Rembrandt



Oosthuizen explained that a 25 percent lift in final dividend did not mean a proportional or similar increase in bottomline profits

"They have always been conservative in their dividend payouts, and this increase hints that management are comfortable about prospects for the full year," said Oosthuizen

Oosthuizen said strong earnings contributions from Gencor, the mining conglomerate, and Absa, the banking group, would fuel second-half earnings "Vodacom, the cellular service provider, has also turned around and is now spewing money"

He said the contributions from tobacco, Stellenbosch Farmers' Winery and Distillers, the company's so-called sin interests, would also be strong

"Tobacco will again be the star performer There could be underlying volume growth of as much as 5 percent, which will be helped by a kick of about 25 percent from the rand"

Oosthuizen believed the marked dividend increase could also signal that HLH and Rainbow had been stabilised

☐ Business Watch

Sunday Times Business Times
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TOBACCO

Cash-rich Rembrandt goes hunting

By HEATHER FORMBY

THE Rembrandt Group's strong cash position means it could be on the acquisition trail. With its cash resources of almost R1.5-billion, the group will support associate Rothmans International in its pursuit of international opportunities in the tobacco market.

Last year, Rothmans bought the Swiss-based Burrus group which has a large percentage of the Swiss tobacco market. The group paved the way to increase its international competitiveness when it exchanged its South African tobacco interests for a third of Rothmans International in October 1995.

In South Africa, investment opportunities in tobacco are limited and sales in the formal market are declining, mostly because of an influx of smuggled products free of excise tax. Because of declining sales, managing director Thys Visser sees the contribution to net income from the SA business to Rembrandt's trademark interests (tobacco and liquor) being overtaken by contributions from international markets. Since Rembrandt wants to keep its trademark interests as the major part of its business — now contributing more than 50% of net income — it will want to invest in markets where tobacco sales are rising such as the Far and Middle East and Africa.

But it will want to protect its SA market, where overall tobacco sales — if the informal market is included — could be increasing, although numbers are difficult to substantiate. It will have to fight on two fronts — against government taxation and against foreign competition. Arguments about high tax on tobacco products are likely to heat up as the March Budget draws near.

Visser argues that high taxes on tobacco cause an influx of illegal products as smugglers are attracted by the growing margins possible on their products.

Prospects for further increasing cash resources to fund international acquisitions are good. Depending on how the much-speculated-about black empowerment deal is structured with Gold Fields, Rembrandt's cash coffers could be filled further. Rembrandt has a 40% stake in GFSA Holdings, Gold Fields' holding company.

(198) ST (BR) 9/2/97

The hypocrisy about tobacco

MtG 14-20/2/97

(198) ~~298~~

Richard Thomas in Washington

IT looks as if the game is finally up for the tobacco industry The anti-smoking lobby is anticipating a spell of success after decades of disappointment in the courtrooms For 1997 is the year when government bodies finally square up to a corporate lobby whose wealth and power seemed to guarantee permanent immunity.

This week the United States tobacco industry locked horns with the Food and Drug Administration (FDA) in Greenboro, North Carolina, over plans to stop cigarette advertising anywhere near schools In the current climate, the FDA is favourite to win Encouraged by new cracks in the legal armour of the industry and by President Bill Clinton's war of words against smoking, 18 US states are suing the industry for the cost of providing health care to citizens with smoking-related illnesses Texas alone is going for $16-billion

Even in France a lawsuit has been launched by a cancer-stricken former hearse driver

The tobacco industry is sufficiently worried that negotiations on a one-off, global settlement are being discreetly conducted But such a victory over the smoking lobby is not a cause for celebration, especially not for those on the left The renewed war against tobacco firms is symptomatic of a society without responsibility, of a politics driven by opportunism and cowardice — and of a legal philosophy built on greed and hypocrisy

For years, lawsuits against cigarette firms floundered in the face of one overwhelming and persuasive argument: the people whose health was affected by cigarettes choose to smoke, and so should accept the consequences, which were widely known. No jury could deny the force of the individual-responsibility argument.

And rightly so. People have the right to drink too much alcohol, eat too much salt, or not to do any exercise If that means the right to die early, so be it Of course, the health lobbies should also be at liberty to try to persuade us to jog more and puff less

Recognising this, the smart lawyers that only the US seems able to generate have hit on a new strategy. Instead of suing on behalf of individuals, they act on behalf of state governments which pick up the tab for lung cancer and other smoking-related ailments

Where does it stop? How about taking a few bucks off Ford for making all those cars that keep running people over and belching out asthma-generating gases? And if we get military hardware into the mix, the lawyers could have a field day: land-mine manufacturers, in particular, have done a great deal to push up hospital costs.

We may not like these firms, we may not like the results — but retrospectively to make them pay for the effects of their products, well known in advance, is intellectual fraud of breathtaking proportions However, fiscal opportunism has elbowed out such high-brow concerns With smokers conveniently vilified as social pariahs — and nowhere more so than in the Land of the Free — the tobacco companies look like a juicy target for cash-strapped legislatures

In many countries, politicians of all shades pretend to voters that they can have the services they want without having to pay higher taxes — a blatant fiction. But no one can criticise the tax gatherer for taking money from those nasty-smelling smokers or tobacco executives, now can they?

Even worse than the political double-think is the blind eye turned to what is happening in the Third World The tobacco industry knows that Western markets are saturated and the profits so enviously eyed by politicans are increasingly made in the fast-growing markets of Asia.

So the tobacco giants make vast profits from unsophisticated consumers in the poorer parts of the world; rich governments then appropriate as much as possible to fund their public services, without having to ask their own voters to pay more Meanwhile, well-heeled lawyers buy a couple more Lear jets and act as progressive champions of the people Now that is enough to make you choke

United Tobacco Company buoyant

(198)

BD 17/2/97

Ingrid Salgado

UNITED Tobacco Company lifted attributable income 32% to R20,9m for the year to end-December, despite an 18% increase in excise duty last year and reduced volumes

Share earnings rose 32% to 344c (261c) A final dividend of 114c was declared, raising the total dividend 41% to 172c (122c)

MD Steven Jurgens said at the weekend that although turnover increased 7% to R398m (R371m), the group's volumes had declined about 2,5% An industry price rise and high increases in excise duty had pushed up turnover

Directors said a slowdown in economic growth as well as duties and cigarette smuggling had contributed to a drop in domestic cigarette market volumes

Operating income surged 65% to R28m (R17m) and margins improved to 7% from 4,6% due to attention to costs However, the two years were not strictly comparable because of the previous year's one-off implementation costs of health restrictions in terms of the Tobacco Products Control Act.

Jurgens said the company was cautiously optimistic about prospects for the next financial year although results depended largely on excise duty and price increases If a three-year pattern continued, in which duties increased 80% in nominal terms and 50% in real terms, the company would embark on more focused brand strategies to recoup volumes

He said the group was concerned that the domestic industry could experience an increase in contraband should excise duties and price rises widen the price difference between SA and its neighbours

The company holds trademarks such as Winston, John Player and Benson & Hedges Other products include pipe tobacco, cigars and snuff products

Interest received for the review period declined 36% to R5,5m (R8,7m). Directors said the results were not directly comparable as the group had benefited from the disposal of its Willards snack division the previous year. The group had committed capital expenditure worth more than R3m for the year to be financed through earnings and liquid resources

SA warned about the dangers of smoking

Sowetan 21/2/97

Cigarettes far cheaper in South Africa than elsewhere in the world

(198)

By Mokgadi Pela

A LEADING cardiologist has cautioned South Africans about the dangers of smoking and urged people to quit the habit

Professor Harry Seftel of the Wits Medical School said "There is no part of the body that smoking doesn't destroy It mainly targets the lungs and heart" He said smoking also caused cancer of the lips, throat and voice box

Seftel said smoking resulted in over two million deaths annually worldwide Tobacco smoking, he said, was as addictive as cocaine, mandrax, opium and dagga

"It's tragic therefore to see young ladies increasingly adopting the habit For the first time in 1996, the number of female smokers exceeded that of men in the Western world In the African population, more than 50 percent of men smoke In the white population, over 60 percent of men smoke while 40 percent of females also smoke," he said

Ruin the lives of millions

He labelled smoking the "plague" of the 20th century "At a time when we are still struggling with tuberculosis and other preventable diseases, the tobacco moguls ruin the lives of millions of people"

He urged adults to be exemplary in their lifestyles He singled out parents teachers, doctors and politicians among those who should not smoke as it sent wrong signals to teenagers

Seftel said there was an overwhelming case for the total ban of tobacco advertising "There's a difference between freedom and chaos It's strange that tobacco advertising is often associated with sport Is it not funny considering that sport has to do with health and performance while smoking has to do with death?" He added that for one to be a good sportsperson, one needed good muscles and arteries

Prof Harry Seftel

He called on the Government to raise tobacco tax as a way of discouraging smoking, particularly among teenagers "The price of cigarette is very low in comparison to other countries We can use tobacco tax for good purposes"

Addressing a workshop on tobacco control in Pretoria last year, director-general of health Dr Olive Shisana said South Africa needed the cooperation of all sectors in combating tobacco

"Tobacco is a major problem in our society for three reasons It is harmful it is addictive and it is an important economic commodity If tobacco were not harmful, there would be no reason to stop smoking If it were not addictive there would be no problem in stopping If the trade in tobacco was not large there would be little opposition to the regulation of this product It is the concurrence of harmfulness, addictiveness and economics that aggravates the problem,' Shisana said

Major threat

"If current smoking trends continue, health authorities will have to siphon scarce financial and human resources into dealing with smoking-related diseases The international community has warned that tobacco is a major threat to sustainable and equitable development '

She said the tobacco industry's success was rooted in its continued ability to mass market a cheap product that was addictive "It only has to get children to start smoking, and nicotine dependence will ensure they continue to smoke for the next 30 to 40 years"

Turning to the youth, Shisana said "Preventing smoking among young people depends upon changing the attitude of society as a whole Children will not stop smoking simply because adults tell them to do so Adults must set the example and quit the habit themselves to provide positive role models and create a social environment that promotes health by making the healthy decision of kicking the habit"

'INCREASES DISGUISED AS SIN TAX'

Tobacco firms blame shops

(198) CT 20/3/97

MANY RETAILERS are selling cigarettes at above the retail prices recommended by the manufacturers, tobacco companies say. Consumer Writer **JACKIE CAMERON** reports

CIGARETTE manufacturers have rejected allegations that they slipped in a price increase with the tax increases announced at Budget time — and have placed the blame for additional price increases at the feet of retailers

Last week Seven Eleven supermarket boss Mr George Hadjidakis slammed cigarette companies for surreptitiously increasing the price of cigarettes even more than the "sin tax" announced by Finance Minister Mr Trevor Manuel.

The United Tobacco Company admitted yesterday that it had increased the prices on three brands "to reflect the highly valued international image of these brands"

"Perhaps the adjustment on these three brands caused confusion to Mr Hadjidakis," the company's spokesperson, Ms Hilary Thomson, said

She said the prices of cigarettes at Seven Eleven "are well in excess" of the recommended retail prices

"Our recommended selling price is not legally enforceable However, we believe it represents a fair price and includes a profit margin to the retailer Any price in excess of this represents increased profit to the retailer — not the manufacturer"

Retailers were not obliged to put up prices in line with the 54c increase in sin tax the day after the budgetary price increase

The increased prices should only come into effect on new stock ordered from the manufacturers — who are the point of collection for excise tax — and not on stock already on shop shelves, Thomson added.

R&R Tobacco issued a statement denying that its distributing agents, Transatlantic Tobacco Company and Intercontinental Tobacco, had increased prices to coincide with Budget day

A spokesman for the manufacturer said the wholesale price of 20 cigarettes had gone up from R3,32 to R3,86 (54c)

RJ Reynolds Tobacco International denied it had increased the price of its Camel brand and said the excise tax increase, with the accompanying cents increase in VAT, would push the recommended retail price up to R6,10

A spokesperson for Shoprite Checkers said cigarettes were sold at all their supermarkets for 1c less than the recommended retail prices for packets of 20, and cartons were sold for between 25c and 35c below the recommended retail prices

"We have discontinued certain lines because the manufacturers pushed in an extra increase when the excise increase was announced These lines include John Player Special King Size and Special Lights 100, and Players Gold Leaf King Size Lights"

The new recommended retail price for Benson & Hedges Special Mild is R4,90 for 20, and Camels should sell for R6,10 for a pack of 20

A Pick 'n Pay spokesman was not available for comment, but a manager at a Peninsula store said Benson & Hedges Special Mild was being sold for R4,95 and Camel for R6,25

"As far as we know, we are keeping the prices down for as long as possible The price of Benson & Hedges Special Mild will go up to about R5,40 and Camels will go up to about R6,95 or R7,10 a packet"

He said that cigarette manufacturers "sneak this in under our noses every year"

Tobacco RSA 'an example'

BD 24/3/97 (198)

THE tobacco industry said yesterday the new business organisation it had set up in place of the former Tobacco Board within three months was an example for other agricultural sectors

Tobacco RSA would operate free of government interference and participation was voluntary, GM Jan Venter said The organisation was aimed at securing order and stability in the tobacco industry, and providing an effective industrial service, he said

As an Article 21 company, Tobacco RSA has 12 board members, six of whom are producers, five manufacturers and one a dealer in leaf tobacco It has 14 member organisations

The Tobacco Board was dissolved last October when, at its request, the tobacco scheme for the marketing of tobacco was annulled by Agriculture and Land Affairs Minister Derek Hanekom in terms of the Marketing Act

Wrensch Louw, chairman of Wespro Co-op, is chairman of the new organisation and Johann Roelofse of R&R Tobacco is vice-chairman — Sapa

CT (BR) 24/3/97 (198)

Tobacco RSA to replace Tobacco Board: The tobacco industry announced yesterday the formation of a new business organisation, Tobacco RSA, which would replace the Tobacco Board. Jan Venter, the general manager of Tobacco RSA, said the objective of the organisation would be to "co-ordinate and regulate the tobacco industry within South Africa according to free-market principles and to the benefit of the industry as a whole".

Cigarette makers smoke out new ways to thwart bans on adverts

(198)

ARG 24/3/97

London – Cigarette companies, bombarded by lawsuits and facing increasing restrictions on advertising, are finding new ways to promote their brands, industry experts say.

Tobacco product manufacturers are branching out into everything from the clothing business to holidays

Customers around the world can garb themselves in Camel footwear and Marlboro branded clothing, buy music at Salem record stores, and book holidays through a Peter Stuyvesant travel agency

They can watch sporting events ranging from car racing to snooker sponsored by major tobacco companies and redeem coupons from cigarette packs for various branded goods

Consumers in some markets can still see advertisements for cigarettes

"We're reacting in whatever creative ways are open to us," said Clive Turner, executive director of industry affairs for Britain's Tobacco Manufacturers' Association (TMA)

Last week, Liggett Group agreed to settle tobacco litigation in the United States with 22 of the 50 states in a move being seen as the harshest blow yet to the cigarette industry

As Western countries have imposed more and more restrictions on cigarette companies, manufacturers have also increasingly turned to emerging markets in Eastern Europe and Asia

But many of those markets are now mimicking the West and also clamping down on cigarette advertising

China, which accounts for a third of world cigarette consumption, in 1995 imposed a total ban on cigarette advertising, including a ban on sponsorship

Vietnam earlier this year re-issued directives for a total ban on cigarette advertising, and Bulgaria has plans to ban tobacco advertising on television

France imposed Western Europe's toughest legislation in 1993 when it banned all direct and indirect advertising and promotion of cigarettes

Radio and television advertising for tobacco products is banned in Germany and Britain but outdoor advertising is still permitted — and thriving

Britain, however, severely limits the content of cigarette advertising, resulting in adverts that range from the highly creative to the highly mysterious

"Some advertisments are so esoteric that unless you're a smoker you can't understand them – and even if you're a smoker they're difficult to understand," said the TMA's Mr Turner

One advertisement shows a red motorcycle in the middle of a desert – with nary a cigarette package in sight

"The motorcyle is red and that means it's Marlboro," said Mr Turner

The Marlboro brand, owned by Philip Morris, accounts for eight percent of world cigarette consumption, said Chris Hancox, analyst for a World Tobacco report from Euromonitor, a market research group

The global cigarette market grew more than 20 percent between 1992 and last year to reach $300-billion Although the Chinese market grew 40 percent in that period, its growth has been slowing dramatically, dropping from 22 percent in 1994 to about three percent now

The advertising ban in China was curbing growth, but Mr Hancox said it was not the major factor

"Most of the evidence is that the only thing that stops people smoking is higher and higher prices," said Mr Hancox

The tobacco companies insist that their advertisements are aimed at winning market share from existing smokers rather than encouraging people to smoke But even seemingly small market shifts are highly valuable

"If you get a one percent change in market share (in Britain) that's about £100-million in revenues," said TMA's Mr Turner – Reuter

High excise duty threat to farmworkers

(198) Sowetan 25/3/97

By Sowetan Business Reporter

THOUSANDS of people in the tobacco industry may lose their jobs if the Government does not reduce the more than 50 percent excise tax on tobacco

Tobacco Republic of South Africa, the body formed this month to facilitates the marketing of leaf tobacco, says the families and dependents of 28 600 tobacco farmworkers may suffer as a result of retrenchments because of increased excise duties on tobacco

Cigarettes and alcohol were a subject of punitive duties during this year's Budget

Tobacco products, for instance, were subjected to substantial increases in duties

The duty on tobacco went up by 52 percent, bringing the tax, including VAT, to 50 percent of the retail price Smokers also have to pay an extra R2,49 a kilogram for pipe tobacco

Massive retrenchments

Tobacco South Africa chief executive Jan Venter said yesterday that farmworkers, officials at cooperatives and manufacturers are the main sections that will be affected by massive retrenchments, posing bleak prospects for the economic empowerment of the disadvantaged groups

Although this will be the case, Venter predicted that the redundancies would not be as radical as perceived They would be gradual, with workers given advance notice

"The extent of the redundancies will be determined by how the market reacts to the tobacco industry with the exorbitant increase in cigarette prices," he said

"The increase in excise duty of 52 percent in the current Budget has aggravated the situation," Venter said

The situation was worsened by the unprecedented smuggling of cigarettes from abroad

He argued that the impact on the tobacco industry would be devastating as it would shrink

"I fear the Government has now sunk the fine efforts of the cooperatives to establish new small tobacco farmers

Wave of smuggling

"We are approaching the same position as Canada, where the excessively high tax precipitated a wave of smuggling and related crime," he said

Tobacco RSA was set up in place of the former Tobacco Board The board was dissolved last October when at its request, the Tobacco Scheme for the marketing of tobacco was annulled by Agriculture and Land Affairs Minister Derek Hanekom in terms of the Marketing Act

As an Article 21 company it will operate free of government interference and participation According to Venter, it is voluntary

The organisation consists of 12 board members, six of whom are producers, five manufacturers and one a dealer in leaf tobacco

It has 14 member organisations

Anti-smokers warn against pressure from tobacco industry

(198) Star 31/3/97

Cutting taxes on cigarettes would be folly, says cancer association official

By Priscilla Singh
Health Reporter

Anti-smoking lobbyists have warned the Government not to bow to pressure from the tobacco industry to reduce recent increases in excise duties

The tobacco industry fears higher taxes on tobacco could lead to the importation of cheaper contraband cigarettes

A customs task force revealed last year that cigarette smuggling was costing the country about R20-billion a year in revenue

However, police were yesterday unable to give the latest figures

But Katherine Everett, director of health promotion for the Cancer Association of South Africa, said cigarette smuggling needed to be investigated, particularly in light of the tobacco industry's attempts to use it to get the Government to reduce taxes

She drew attention to the Canadian government's series of substantial tobacco tax increases between 1982 and 1992, which resulted in an accelerated decline in smoking and a 240% increase in tax revenue

Smoking in the general population declined by 38% in this period and teenage use of tobacco decreased even more dramatically, by 60%

Everett said the Canadians' policy of maintaining substantial tobacco taxes proved to be an unqualified success in improving the health of Canadians However, there was a marked increase in smuggling

She said it was discovered the Canadian tobacco companies were part of the smuggling operations

Over 90% of all tobacco products which were smuggled into Canada from the US were supplied by the tobacco industry through a system known as round tripping

Locally manufactured cigarettes were "exported" tax free to non-existent markets in the US, and then shipped back into Canada

At the same time, the tobacco industry used the smuggling issue in a vigorous campaign to convince the government that reducing taxes was not the solution

Everett fears a similar situation in South Africa, especially in the light of an advertising campaign by the Tobacco Institute of Southern Africa warning the Government of its folly in increasing taxation

> "Penalties should be revised to prevent smuggling"

Among other contributing factors in the Canadian case, which are similar to the South Africa situation, are the cross-border price difference between Canada and the US, which is the largest in the world, the Canada-US border is the longest unguarded one in the world, and at least 90% of Canadians live within a two-hour drive of the border with the US

By 1994, the Canadian government bowed to pressure and announced a reduction in the tax on tobacco This single change in policy led to thousands of additional deaths from tobacco products, Everett said

"The lesson to draw from the Canadian experience is not, as the industry would have us believe, that higher taxes inevitably lead to a massive and uncontrollable smuggling problem, but that tobacco companies will pursue the maximisation of profits at the cost of undermining the Government's health and fiscal policies," she said

Dr Yusuf Saloojee, executive director of the National Council Against Smoking, said the R620-million revenue the increase was expected to be yield could be used to employ more customs-and-excise officials and tighten border controls

"The penalties for tobacco smuggling could also be revised in attempt to deter it," Saloojee added

He said the international experience showed that tobacco excise-tax increases made sound fiscal policy and promoted public health, saved lives and raised the revenues

Health Minister Dr Nkosazana Zuma was also in favour of stricter border control to curb all forms of criminality, including illegal immigrants, her spokesman Vincent Hlongwane said

Call for probe to determine whether public was deceived

By Priscilla Singh

The National Council Against Smoking has called on Health Minister Dr Nkosazana Zuma to appoint a commission of inquiry into the local tobacco industry

The council said the purpose of the commission would be to determine whether the tobacco industry had conspired to mislead and confuse the public by casting doubts on the scientific evidence of the harmful effects of smoking

Zuma's spokesman Vincent Hlongwane said yesterday the minister had acknowledged the council's request and would meet its executive director Dr Yusuf Saloojee when she returned from her official visits to Australia and Geneva on April 11

Hlongwane said Zuma wanted to meet Saloojee to establish a consultation process to determine whether a commission was necessary

"The minister is very concerned about the effects of smoking on the youth especially, and wants to see fewer advertisements and messages from tobacco companies influencing young men and women to smoke," Hlongwane said

The council said the commission should probe what the tobacco industry knew about the health risks of smoking and if it deliberately withheld information from the public and the Health Department

Saloojee said his organisation called upon the tobacco industry to publicly acknowledge that its products were harmful and to reveal what research it had conducted to investigate these effects

He said the tobacco industry should stop targeting women and children in its marketing campaigns and agree to establish a fund to compensate the victims of tobacco

"Although the scientific evidence identifying smoking as a leading cause of cancer was established in the 1950s, the South African industry has never publicly accepted that its product is dangerous," Saloojee said

He added that even today, the local industry denied that smoking caused any disease or that nicotine was addictive

The American tobacco industry's wall of secrecy was cracked open when secret documents revealed that tobacco companies knew at least 30 years ago that nicotine was addictive and that tobacco smoke caused cancer

Saloojee said local cigarette manufacturers should be compelled to make reparations to its victims, to help smokers quit, and to stop opposing public-health measures designed to control tobacco use

Smoking in trouble as Liggett blows the cover on addiction

(198)

ST(BT) 30/3/97

MARCIA KLEIN

Looks at the rupturing of the tobacco industry's smoke screen

AS AN industry under siege by the anti-smoking lobby by the health ministry and sin tax collectors South African tobacco companies are, by their nature, tight-lipped on most issues relating to them

So it is not surprising that they have put up a nonchalant face in reaction to an event in the US which has sent waves of shock through the international tobacco industry and could open up new possibilities for massive anti-smoking law suits

Last week the small US-based Liggett Group the maker of Chesterfield Lark and Eve cigarettes, became the first manufacturer to admit that cigarettes were addictive and caused cancer and that advertising targeted teenagers

Liggett said it would place smoking is addictive" warnings on its products and, in return for immunity against litigation, would pay $25-million upfront and commit 25% of its annual pre-tax profits to 22 US states for the next 25 years to settle litigation claims It would also hand over internal documents it had previously claimed to be privileged to lawyers involved in smoking related lawsuits

Displaying a certain amount of fear and with a sense of great urgency US tobacco companies obtained a temporary restraining order from a North Carolina court to prevent Liggett from handing over the documents relating to earlier discussions with them These papers are rumoured to have potentially damaging evidence and could show that the major companies conspired to hide the fact that smoking is addictive and can kill people

But unlike in North Carolina, whose tobacco industry supports 200 000 families judges in Illinois Texas and Mississippi ruled this week that Liggett turn over the documents for review

The North Carolina ruling was granted on behalf of the four major US manufacturers, Philip Morris, RJR Nabisco s RJ Reynolds Tobacco, Loews's Lorillard Tobacco and BAT Industries Brown & Williamson

The effect on these companies of Liggett s admission was swift and damaging Immediately following the announcement last week, major manufacturer Philip Morris s share fell $6 12 to $115 87 and RJR Nabisco dropped 62c to $31 62 — both after a six-month bull run — while Liggett s holding company Brooke Group picked up 62c to $4 87

South African tobacco shares also felt the heat On Monday Rembrandt lost 45c to R45 05 and Richemont dropped 75c to R58 75, while Utico remained stable just under R20 The shares were under continued downward pressure for most of this week but the companies themselves refused to get hot under the collar

A terse statement from Rothmans International Holdings, which holds the merged tobacco interests of the Rupert family s Richemont and Rembrandt groups said it was not involved in any US litigation and its position (that it would fight any litigation) remained unchanged

Utico company secretary Hilary Thomson said "obviously we are aware of litigation around the world and we are monitoring the situation" but she added that Utico was not doing any thing specific in response to the controversy set off by Liggett

Tobacco company shares are under pressure, not only because of potential threats of litigation and a natural drop-off in consumption in developed countries but also owing to the sharp increase in duties announced in the Budget

Cigarette prices have increased as duties on cigarettes went up 25% in the 1994 Budget, 25% in 1995 18% in 1996 and now a hefty 52% in 1997

The Tobacco Institute says this has led not so much to lower consumption but rather to an increase in smuggling which does not benefit the companies or the government's coffers A source estimates smuggling could be as high as 15% of the total market

While industry sources say they don't believe events in the US will have any direct effect on local companies, Yussuf Saloojee, executive director of the National Council Against Smoking, says Liggett's admission will have some major ramifications

'We will encourage SA smokers to start litigation. Some high-ranking lawyers have indicated they are looking at test cases'

Firstly, he says the admissions show the tobacco industry has deceived its clients and SA companies will have to answer questions on what research they did into the effects of tobacco and why the results were not made public — in other words it must be asked whether they are also hiding information and deceiving their clients

He says a major breakthrough is that Liggett has "accepted that its advertising targeted children" whereas tobacco companies have for years been saying that advertising merely promotes brand switching "This evidence overwhelmingly supports the health minister to ban cigarette advertising"

Saloojee says there have been no lawsuits in South Africa to date, but some could be in the offing "The council will encourage SA smokers to start litigation" he says adding that some high-ranking lawyers have indicated they are looking at taking on test cases But these have not proceeded beyond initial discussions

In the US, the situation is very different Since last year, 22 attorneys general (the ones who concluded the deal with Liggett) have filed Medicaid suits against the tobacco industry Pennsylvania, Missouri and Alaska are considering filing similar suits

The US Justice Department is conducting a criminal investigation into the tobacco industry The investigation covers many issues, including whether the top brass of the major manufacturers (which included Liggett) lied to Congress in 1994 when they testified under oath that nicotine was not addictive

Analysts say the contents of the documents Liggett has threatened to expose are not likely to yield any seriously damaging information, but the most important part of Liggett s announcement is the admission that nicotine is addictive It will have to explain when exactly it became aware of this fact between its 1994 oath and now, and why it did not come clean earlier

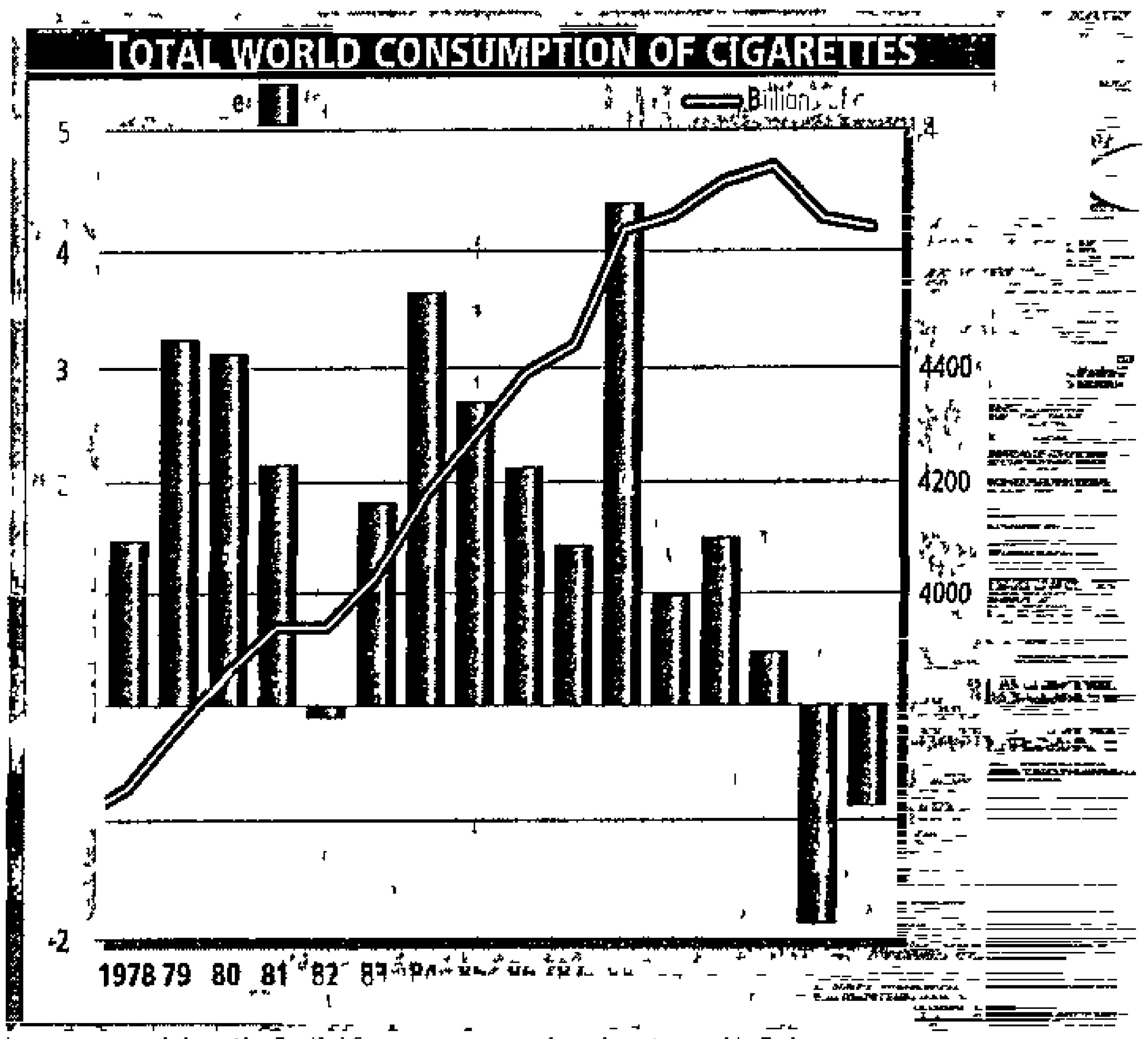
Major manufacturers in the US and industry sources in South Africa have questioned Liggett's motives, saying its startling admissions must have a commercial agenda Soon after Liggett s admission, they said Brooke Group chairman Bennett LeBow was "simply brokering this deal in a desperate attempt to force one of the other cigarette manufacturers to take over his financially troubled and failing tobacco interests" They argued that Liggett — which has not made money since 1991 and whose market share has dwindled to less than 2% — had no profits to give, so it stood to lose very little in real terms

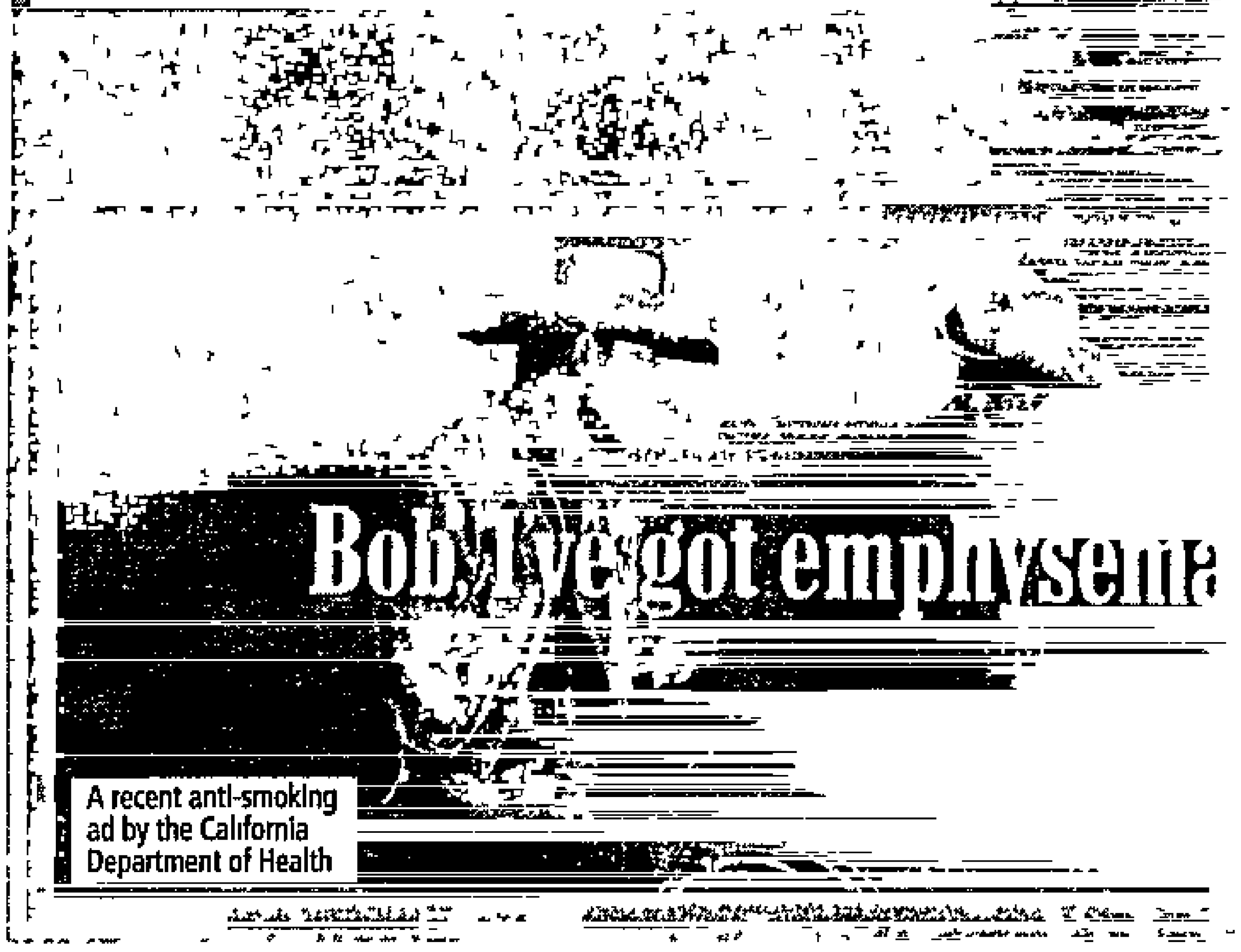
A year ago Liggett broke ranks when it offered to settle litigation by paying out a portion of its profits According to the Financial Times, this was seen as a ploy in LeBow's attempt to win control of RJR Nabisco, the second-biggest US tobacco company His bid failed, but the FT said "he has pursued a settlement in the hope of frightening a bigger company into taking over Liggett at an inflated price to shut him up"

Whatever its motives, however, damages to the industry could be enormous and tobacco companies seem to be all too aware of this

The Sunday Telegraph reports that BAT Industries, through its US subsidiary Brown & Williamson, is trying to form a $3-billion US industry-wide fighting fund "as a buffer against the rising tide of litigation" This would enable the tobacco companies to fight each case, absorb the claims from cases which go against them and reassure financial markets about the value of the shares

The move indicates an about-turn in BAT s attitude to tobacco litigation Now it is looking at settlement alternatives for something it previously said it would "fight to the death"





A recent anti-smoking ad by the California Department of Health

WHERE THERE'S SMOKE SA

Exports boost tobacco farmers

(198)

Louise Cook BD 21/4/97

SA TOBACCO farmers' efforts to become less dependent on the local market in favour of exports have started to pay off, with this year's crop expected to be about a quarter bigger than last year's

Tobacco Exchange chairman Francois van der Merwe said that while local demand was shrinking 2,4% a year, expanding overseas markets and rising international tobacco prices were keeping SA farmers in business.

Favourable climatic conditions and rising world demand had prompted SA farmers to plant 13,5% more Virginia tobacco this year. Oriental tobacco plantings also increased

Van der Merwe said 70% of the crop was still sold locally, with the rest sold largely through international tobacco merchants. Sources said the US, Sweden and Taiwan were keen importers of SA tobacco

Since 1995 world prices had risen 70% "We expect this trend to continue during 1998, possibly leading to surpluses in the long run"

SA's powerful anti-smoking lobby criticised the rise in tobacco production, saying farmers should switch to food crops.

SA National Council Against Smoking director Yussuf Saloojee said "The World Bank estimates that for every ton of tobacco produced, one person eventually dies. Farmers should diversify, especially since large quantities of SA tobacco have been exported at a loss in recent years." He said in the past quality problems had jeopardised SA exports, a claim disputed by the Tobacco Institute of Southern Africa

SA BUSINESS DIGEST

(198) CT (BR) 9/5/97

Rembrandt locks out striking workers after 'unruly behaviour and intimidation'

About 400 workers, all members of the National Union of Food, Beverages, Wine, Spirits and Allied Workers, have been locked out of R&R Tobacco Manufacturers in Paarl after the parties failed to reach agreement on wages and other substantive issues. Alfred Madlalhane, the union secretary, said yesterday that since the strike started the company had rushed to the police with instructions they should "beat up our striking members" He said the company's close links with the police had turned the whole wage dispute into a "militaristic negotiation".

R&R's personnel manager Hans Knoetze disputed yesterday the union's claim that 400 workers were on strike He said only 240 union members, about 30 percent of the workforce, were on strike

He said it was only due to the unruly behaviour of the striking workers that the company sought an interdict at the Cape High Court on Wednesday which prevents striking workers from intimidating other workers

The company had been forced to close its premises in Bergriver Street on Tuesday after a confrontation between locked-out workers and police, who had been called in to escort to safety those workers who had worked that day — *Sapa, Cape Town*

Japan takes on SA tobacco giants

ARG 17/5/97

Two top American-style brands launched in Cape

(198)

IAN SHIFFMAN
Business Reporter

Japanese cigarette manufacturer Japan Tobacco is to take on South Africa's cigarette giants at their own game, launching two of its top brands on the domestic market.

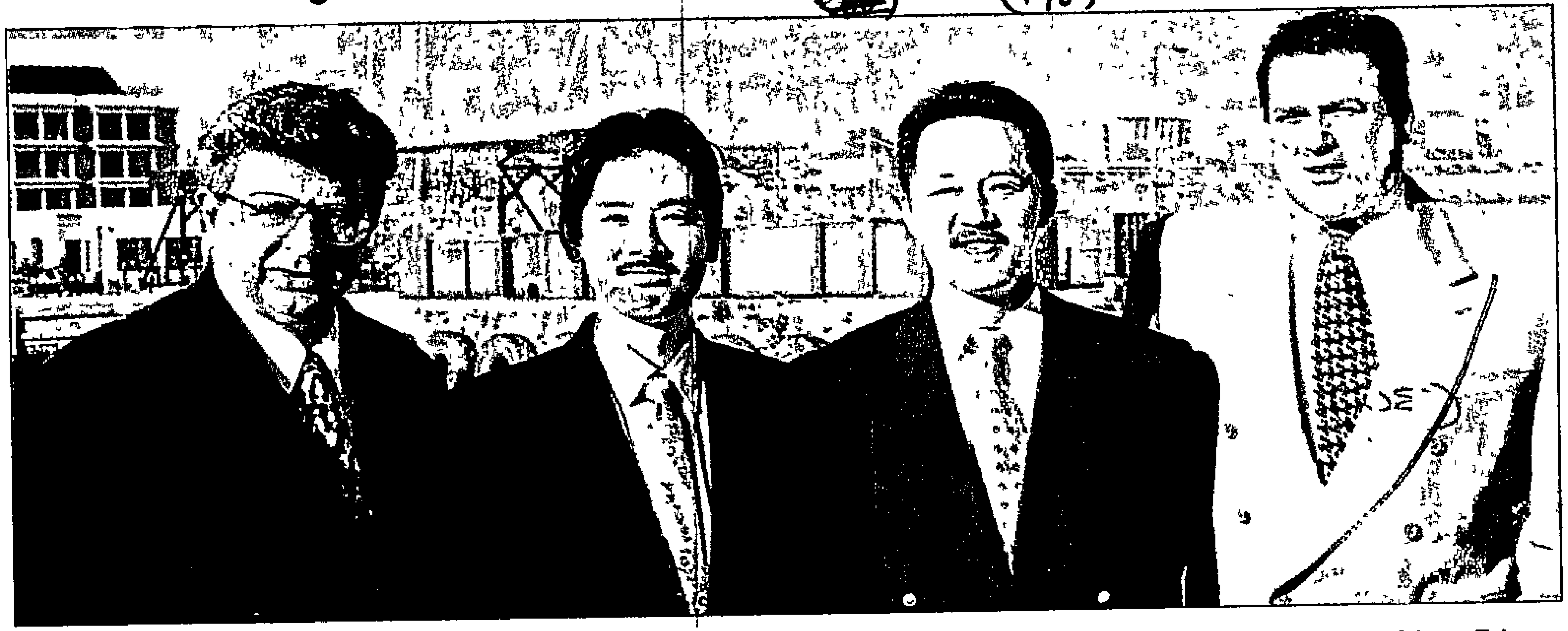
Japan Tobacco, which has an annual turnover in excess of $25 billion (R112 billion) has launched its American-blend brands Wave and Hi-Lite, starting in the Western Cape

Wave and Hi-Lite are being sold at the recommended price of local cigarettes, that is R4,90 for a packet of 20.

The company intends to launch in Gauteng in three months and in Durban and nationally within six months

Japan Tobacco sees South Africa as a growing market for its products and will introduce the world's second largest selling brand, Mild Seven, early next year

The cigarettes, manufactured in Japan and imported into South Africa, are American blends which have overtaken Virginia blends worldwide, according to Koza Ogita, area manager for Europe of Japan Tobacco International.



Coming in smoking: at the launch this week of Japan Tobacco brands in South Africa are Solly Sakal, Kozo Ogita and Tetsuo Nishihara of Japan Tobacco International and Hans Nuls, director of South African distributors Sakal Brothers

He said South Africa was one of the few countries where Virginia blends were still sold in any great quantity.

Japan Tobacco produces more than 100 brands of cigarettes and has 26 manufacturing plants in Japan and one in Britain.

Outside Japan, South Korea and Taiwan are the group's biggest markets. It already sells in Zimbabwe

TOBACCO PRODUCTS CONTROL BILL

Blowing smoke rings around the opposition

FM 23/5/97

Advertising industry will feel pinch as Paul Revere and Peter Stuyvesant "coffers" dry up

(198)

The tobacco industry must feel doubly victimised Not only have highly publicised US litigation battles added to the angst of the sector but now Health Minister Nkosazana Zuma has proposed a ban on tobacco advertising

This measure is part of the proposed Tobacco Products Control Bill Intended to replace the existing Act, the Bill will prohibit the advertising and promotion of tobacco products, control smoking in public places, stop the sale of tobacco to young people and enhance public awareness of the dangers of smoking

A Rembrandt (Remgro) spokesman says "the proposed model was not drafted by government but originated overseas It won't be possible to comment until a Bill is published locally "

United Tobacco (Utico) MD Steven Jurgens protests that the industry and SA's estimated 4,8m smokers are unfairly censured for manufacturing and enjoying legal products Jurgens, like most others in the tobacco industry, argues that scientists have never proved that smoking causes cancer or other health problems

Read 'em and weep cause they won't be around much longer

Robert Tshabalala

For SA's tobacco industry Zuma's proposal could not have come at a worse time Unnerved by the implications of litigation under way in the US, the industry fears public and government support for Zuma's argument

For smokers and the industry, the most disturbing element of the US litigation is that a company has finally admitted a causal link between smoking and cancer as well as other health problems

Liggett, a small manufacturer of cheaper brands, broke ranks with the industry in March Its director, Bennett LeBow, announced that it had settled a class action and was close to an agreement on antitobacco lawsuits brought by four states

As part of the Liggett settlement, LeBow will issue a public statement admitting that "as the Surgeon General and respected medical researchers have found, cigarette smoking causes health problems, including lung cancer, heart and vascular disease and emphysema "

Until now the industry has argued that scientists haven't proved a causal link between smoking and cancer, for example The argument led to a stalemate in US courts, where tobacco manufacturers have never had to pay compensation in individual or class action lawsuits

If, as seems likely, two global market leaders in the industry agree to contribute to a fund which will absolve them from any future liability in smoking-related lawsuits, others in the industry have even more to worry about RJR Nabisco Holdings and Philip Morris appear to be seeking an out-of-court settlement which involves a US$300bn payment over 25 years

Remgro's spokesman reckons that average tax incidence in the US may still be lower than that of SA even after the implementation of the legislative settlement "Most of the restrictions now proposed in respect of tobacco marketing in the US have already been implemented in SA," he says "The marketing of tobacco products is in many respects more severely limited in SA than it will be in the US even after the implementation of the new proposals "

For now, neither Rothmans (including Remgro) nor BAT (including Utico) are part of the settlement But unless there is some deal involving all members of the global industry that would give competitors of Nabisco and Philip Morris an unfair advantage, say observers

Remgro's spokesman says "Rothmans International's position in respect of any tobacco-related litigation remains unchanged and all proceedings will be defended vigorously "

Michelle Joubert

AIRLINE INDUSTRY

Banking on upturn

Talks to review the bilateral air agreement between SA and British aviation authorities started this week

"Britain is entitled to 24 flights at present but wants 30," says Johan Bierman, SA's deputy director of air transport regulation "The meeting on Monday was our first We will have to hold several more We still have to decide whether it's in SA's interest to allow them to fly in 30 times a week "

SA Airways flies to Britain 14 times a week, and is talking of increasing its frequencies to 16 in June

Virgin Atlantic Airways currently flies to SA six times a week, and British Airways 18 times Neither has yet come out and said how they envisage the split Bierman says he "doesn't know how they will allot extra flights, if they get them That's their business "

David Pincus

(2) The implications of all higher education being a national competence in terms of Schedule 4 of the Constitution, requires important shifts in policy, governance and funding for colleges, as described in the draft White Paper on Higher Education The implications for student financial aid are an important element in this process and are under study

*3 Mr D H M GIBSON – Safety and Security [Question standing over]

Bail administration: B priority list

*4 Mrs S M CAMERER asked the Minister of Justice

(1) Whether, with reference to recent allegedly controversial decisions in magistrates' courts awarding bail the programme on bail administration in terms of the re-engineering of the criminal justice system is listed on the National Crime Prevention Strategy's B priority list, if so, why,

(2) whether he intends transferring this programme to the A priority list, if not, why not, if so, what are the relevant details?

N1107E

The MINISTER OF JUSTICE

(1) and (2) Bail administration in terms of the re-engineering of the criminal justice system was placed on the B priority list of the National Crime Prevention Strategy on the recommendation of consultants who were assisting with preparing the various business plans under the programmes of the National Crime Prevention Strategy

This took place shortly after the bail law had been amended (Criminal Procedure Second Amendment Act No 75 of 1995 which came into effect on 21 September 1995)

Generally speaking the amended bail law has worked satisfactorily and Magistrates have done an excellent job in handling bail applications This is one of the reasons that there has been such a dramatic increase in the prison population in respect of awaiting trial prisoners However, as time went on, certain weaknesses were experienced Whatever the reason, some persons who had committed very serious crimes were being released on bail in circumstances which outraged communities

Whilst therefore the A and B listing has not been tampered with, in fact the issue of bail administration is being treated on a priority basis

(a) The A and B listing represent a guideline and the NCPS Ministers have the right to re-prioritise at any time

(b) There is no need to take formal steps like passing resolutions or adopting a minute to transfer bail administration from one list to another The reality is that it is being treated as a high priority area For this reason a number of steps have been taken

(i) Government has made it clear that in its view bail should be refused in serious cases, especially where the security and safety of individuals and communities are at stake

(ii) Under the NCPS a project management team to investigate the bail system and make recommendations has been set up A final report of this team is expected at the next meeting of the NCPS Ministers Committee

(iii) Legislation is pending to compel courts to refuse bail in certain serious cases wherever appropriate and necessary to protect the public Representatives of various parties have been consulted in this connection The bail law has been drafted and will be made available soon

(iv) The Department of Justice has secured the assistance of the Vera Institute of Justice, an United States based institution to commence pilot projects on pre-trial services This includes a service to assist the court to distinguish between serious and non-serious cases where bail applications are pending before courts The pre-trial service is being introduced in 5 centres at present and if successful will be extended especially to the major centres in the country

These measures are an indication that bail administration is regarded as a priority matter, especially insofar as the Justice Department is concerned

NCPS Directors-General: Committee meetings

*5 Mrs S M CAMERER asked the Minister for Safety and Security

(1) On how many occasions has the Directors-General Committee established under the National Crime Prevention Strategy met,

(2) whether the Committee has developed any performance measurement mechanisms for the NCPS, if not, what is the position in this regard, if so, what mechanisms,

(3) whether the Committee has implemented any programmes if not, what is the position in this regard, if so, what programmes?

N1108E

The MINISTER FOR SAFETY AND SECURITY

(1) The Directors-General meet jointly with the National Crime Prevention Strategy (NCPS) Minister During 1997 these meetings have taken place monthly

(2) Yes A work programme which lists milestones and outputs has been approved This will be tabled at the Joint Meeting of Portfolio Committees on 2 June 1997

Performance measures for NCPS programmes in respect of outcomes will be developed jointly with the departments The monitoring group of the Secretariat for Safety and Security will assist When the Project Management Service Team is appointed it will have as a primary responsibility the monitoring of all NCPS projects

(3) Yes

The Committee has implemented the following programmes

- Integrated Criminal Justice Information Management
- Vehicle Crime
- Investigation of the Administration of Bail
- Escapes from Custody
- Commercial Crime
- National Anti–Corruption Programme for the Criminal Justice System
- Border Control
- Firearms
- Automated Fingerprinting Identification System
- Fencing of Prisons
- Provincial Summits
- Community Safety Centres
- Safer Cities (with Johannesburg Metro and United Nations)
- Victim Empowerment
- Awaiting trail prisoners
- Support to SDI Co-ordinating Committee
- Secure care facilities
- Training of offenders
- Witness Protection
- Court Management
- Human Resource Training (Justice)
- Upgrading of infrastructure (Justice)

These programmes are at different stages of implementation Details will be given in the presentation to the Portfolio Committees on 2 June 1997

Legislation on smoking (198)

*6 Mr M J ELLIS asked the Minister of Health

Whether she intends introducing legislation on smoking in 1997 if not why not if so what will be the nature of such legislation?

N1109E

The MINISTER OF HEALTH

The question is extremely appropriate given that Saturday, May 31 is WORLD NO-TOBACCO DAY

Tobacco is a uniquely dangerous product which deserves unique treatment It is the only consumer product that can kill when used exactly as the manufacturer intended And there is no longer any doubt that tobacco causes death and disease on a very large scale

Since the middle of the twentieth century, tobacco products have killed more than 60 million people The death toll is also increasing not decreasing, with the bulk (70%) of future deaths from tobacco expected to occur in the developing countries which have become the focus of the multinational tobacco company's marketing efforts

The World Health Organisation has labelled the tobacco epidemic a "global public health emergency" and has called upon governments, communities and individuals to "Unite for a tobacco-free world" and take concerted action to beat the epidemic

Further, in 1992, President Mandela issued the following message

'On May 31 World No-Tobacco Day, I appeal to smokers to quit for one day as a first step to conquering their habit They say the hardest part about stopping smoking, is making the decision to do it Make that decision for one day on May 31 "

I call upon all members of the National Assembly who smoke to heed the President's words and not smoke on May 31 Take the first step to beating your addiction

The Department of Health is in the process of discussing and consulting about further legislation It will probably be in Parliament next year

Mentally handicaped patients sent home

*7 Rev K R MESHOE asked the Minister of Health

> Whether any hospitals are sending home mentally handicapped patients who still require care, if not, what is the position in this regard, if so, what are the relevant details? N1110E

The MINISTER OF HEALTH

No, psychiatric Hospitals and Care and Rehabilitation Centres are undergoing a process of restructuring so as to render a more cost- and treatment effective service Wherever possible, people have the right to live in communities rather than in institutions

In line with this, certain hospitals have had patients assessed by multi-disciplinary teams, and where appropriate, people have been discharged to their families or other community facilities In the majority of cases patients have been discharged to "half-way" facilities where rehabilitation programmes will continue, rather than being sent home

Local authorities bankrupt/nearly bankrupt

*8 Mr A J LEON asked the Minister for Provincial Affairs and Constitutional Development

(1) Whether any local authorities are (a) currently bankrupt or (b) facing bankruptcy during the course of 1997, if so how many in each case

(2) whether his Department has (a) allocated any funds and/or (b) developed any management plans to cope with the situation facing such bankrupt local authorities to ensure that services continue to be rendered in the areas of such local authorities if not, why not, if so, what are the relevant details,

(3) whether he will make a statement on the matter? N1111E

The MINISTER FOR PROVINCIAL AFFAIRS AND CONSTITUTIONAL DEVELOPMENT

(1) No My Department is not aware of (a) any bankrupt local authorities or (b) any local authorities facing bankruptcy during the course of 1997

(2)(a) No my Department did not allocate or budget, for any funds to cope with any bankruptcy which could occur

(b) Yes at a joint Finance and Local Government MINMEC on 19 September 1996, a Framework for Intervention Programme was approved In terms of the above intervention framework, it is the responsibility of the MECs for Local Government in the Provinces to appoint Management Audit Teams These Teams conduct management audits in those local authorities who seem to have financial difficulties as identified by an ongoing quarterly survey conducted by the Department of Constitutional Development through Project Viability On the basis of the findings of these management audits the particular MEC is empowered in terms of Section 10(G)(2)(m) of the Local Government Transition Act to take corrective steps This is an ongoing process which is being conducted in all provinces simultaneously

(3) I have issued a comprehensive press release regarding the Framework for Intervention Programme on 30 September 1996 A comprehensive document known as "The Present State of Municipal Finance and Action Steps taken by Government to Manage the Situation has been distributed widely A press briefing was held in Cape Town on 18 March 1997 where above report was released

Brigadier involved in hitsquad activities

*9 Mr A J LEON asked the Minister or Safety and Security

(1) Whether with reference to his reply to Question No 6 on 6 March 1996 the investigation into allegations that a certain brigadier was involved in hitsquad activities in KwaZulu-Natal has been completed if not (a) why not and (b) when is it anticipated that it will be completed, if so what were the findings,

(2) whether any action has been taken as a result of the findings, if not what is the position in this regard, if so, what action? N1112E

The MINISTER FOR SAFETY AND SECURITY

(1) Yes

(a) Not applicable

(b) Investigations have been completed in all cases

Murder (7 cases were investigated) The Attorney-General decided to prosecute

Defeating ends of justice – Case docket currently with the Attorney-General for his decision

(2) No, actions have been taken as yet as this office is still awaiting the Attorney-General s decision in the matter as mentioned above

Doctors sent to SA at expense of Egyptian government

*10 Mr A G EBRAHIM asked the Minister of Health

(1) Whether Egypt has offered to send doctors to South Africa at the expense of the Egyptian government if so what are the relevant details

(2) whether this offer has been accepted if not why not if so what are the relevant details

(3) whether the Egyptian government will pay the travel costs and salaries of such doctors if not what is the position in this regard if so what are the relevant details? N1113E

The MINISTER OF HEALTH

(1) The Egyptian government has initiated a discussion with the South African government on this issue and the matter has not been finalized

(2) and (3) fall away

THEMBA HADEBE

Fresh air a fag for forlorn and shivering city smokers

Star 3/7/97

By Cecilia Russell (198)

Standing on street corners is taking on new meaning in Johannesburg as big business clamps down on smoking

As stricter smoking controls are implemented in banks and businesses, smokers are leaving buildings in their hundreds and congregating on street corners just to get their hourly fix

Businesses say it's for the "greater good", but grumbling workers argue it's ridiculous, affecting productivity and making smokers feel like pariahs

"We look like a bunch of prostitutes sitting outside smoking; it's not doing the image of the banks any good," said Linda, a bank employee who objects to shivering in the weak winter sun to have a cigarette

"They should at least give us a smoking room This fresh-air business is designed to kill off smokers," she added

The no-smoking policy is not helping addicts cut down either, the smokers say

Each smoker is now spending at least 15 minutes in every hour on smoke breaks

Absa's human resources spokesman Nanetta Morrison said the bank did not have an overall non-smoking policy, but banned smoking at its head office in Johannesburg

Standard Bank human resou[illegible]es gener[illegible] [illegible]nager John V[illegible]te[illegible] [illegible]it banned sm[illegible]ing in all its banks on May 31

While productivity may be affected, the overall benefits for the workforce was significant and many chronic smokers were giving up, Verster said

Smokers feel cornered by clampdown in workplace

(198) (87)

JOHANNESBURG: Standing on street corners is taking on new meaning in South Africa as big business clamps down on smoking in the workplace

As stricter smoking controls are implemented in banks and businesses, smokers are leaving buildings in their hundreds and congregating on street corners just to get their hourly fix

While businesses say it is for the "greater good", grumbling workers argue it is "ridiculous", affecting productivity and making smokers feel like social pariahs.

"We look like a bunch of prostitutes sitting outside smoking — it's not doing the image of the banks any good," says Linda, a bank employee.

"They should at least give us a smoking room. This fresh-air business is designed to kill off smokers," she adds.

Each smoker is now spending at least 15 minutes in every hour on smoke-breaks, the smokers estimate, affecting productivity.

"We are more outside than inside," said one

Absa's human resources spokeswoman, Ms Nanetta Morrison, said the bank did not have an overall non-smoking policy, but had banned smoking at one of its head office buildings in Johannesburg.

Standard Bank's human resources general manager, Mr John Verster, said the bank had, under its "clean air policy", banned smoking in all its banks on May 31

He said that while productivity of some employees might be affected, the overall health benefits for the workforce were significant and many chronic smokers were giving up — Own Correspondent

CT 3/7/97

Puffers barely have a leg to stand on

Star 4/7/97 (198)

By Cecilia Russell

As more smokers find themselves out on the streets as the result of businesses and banks' "clean-air" policies, it's unlikely they would get a sympathetic hearing if they tried to enforce their right to smoke.

Technically, smokers are protected by the constitution in its equality clause, but so are people's rights to a safe, healthy and clean environment, said Kate Savage from the Legal Resources Centre.

Savage said there had not yet been a case in the Constitutional Court in which one right was tested over another, but the environmental clause demanded that practices which would not harm present and future generations be entrenched and, while people had a right to smoke, they did not have a right to do so to the detriment of the health of fellow workers

Savage said smokers could possibly have a case if they were unceremoniously turfed out of the building without consultation.

"This would be unreasonable administrative action," she said

National Council Against Smoking director Yusuf Saloojee said non-smokers' rights were protected by both the constitution and the World Heath Organisation, which upheld the right of the non-smoker to clean air.

The council suggests that businesses implement "sensible tobacco policies" which would both guarantee the right to clean air but, wherever possible, the need of smokers too.

Salojee said, however, there was little point in having a smoking room which shared the air-conditioners and ventilation system with the rest of the building as this would defeat the purpose of a smokers' corner

Riggio huffs and puffs at cancer body

(198)

BD 25/7/97

Bonile Ngqiyaza

THE Cancer Association of SA (Cansa) had withdrawn an anti-smoking radio advertisement after threats of legal action by Riggio Tobacco Corporation of New York, spokesman Katherine Everett said last night

The association was earlier forced to stop using the phrase "international passport" in the advertisement after an SA firm of attorneys informed it that the American Cigarettes Company (Overseas) had patented the two words in relation to tobacco

A decision to leave in the word "international" in a slightly changed context was taken after it was found that 11 other companies were also using it

International company Riggio Tobacco — represented in SA by the same firm of attorneys, Spoor & Fisher — claimed the phrase "that's the one", used in the advertisement, infringed its patented trade mark

She said while the association contested the assertion that the use of "an innocuous, commonly used" expression like that constituted a violation of a registered trade right, it could not risk incurring costs of a high court action against such a wealthy company

"We have had to withdraw the advert on legal advice because we did not want to risk incurring the prohibitive costs of their high court action if we lost," Everett said

She said the association believed its right to fully inform the public of the true nature of tobacco products needed to be afforded a greater protection than the rights of the tobacco industry to "continue misrepresenting" a lethal and addictive product

Everett said the controversial advert — which has been flighted by about 30 radio stations countrywide — played on the irony that much of the cigarette advertising associated smoking with good health and glamour

"The net effect may well be that an effort by Cansa to expose the misleading nature of cigarette advertising will be stifled," she said

An attorney for the tobacco company, Reinard Michau, could not be reached for comment


LEON MÜLLER
pool last night

Tobacco firm's court threat over radio ad

Cancer Association under fire

ARG 25/7/97 (198)

JENNY VIALL
HEALTH REPORTER

A tobacco company has threatened legal action against the Cancer Association over an anti-smoking advertisement.

The Riggio Tobacco Company of New York has threatened the association with a High Court interdict because it says the phrase "That's the one", used in the advertisement, infringes its trademark rights.

The Cancer Association's health promotion director, Katherine Everett, said the association could not afford to fight an action against a wealthy tobacco company and may withdraw the advertisement

The ad plays on the irony in cigarette advertising that links smoking with well-being, good health and glamour.

It is part of the association's campaign to broadcast the risks of tobacco use and its addictive nature The advertisement is aired on 30 radio stations

Radio stations are required to give free advertising time to anti-tobacco messages if cigarette advertisements are carried without health warnings, in terms of an agreement between the Department of Health and the tobacco industry.

A previous version of the advert used the phrase "your passport to international death"

Ms Everett said the use of such an innocuous, commonly used phrase as "That's the one" did not constitute a violation of a registered trademark.

"The association also believes that its right to fully inform the public of the true nature of tobacco products needs to be afforded greater protection than the rights of the tobacco industry to continue through its advertising to misrepresent a lethal and addictive product as utterly harmless"

The advertisement features a customer asking for "the regular please"

The sales clerk says: "Hey, you strike it lucky today! All the cigarette companies, they make a special international offer today ... free with every pack.

"That's the one, sir For an unlimited period you get to share the experience of 200 poisons and 43 cancer-causing chemicals in every cigarette, plus all the satisfaction of stained teeth, bad breath and smelly clothes – absolutely free!

"It's your one-way ticket to smoking addiction."

(198)

Anti-smoking ad has tobacco firm fuming

Star 26/7/97

By Priscilla Singh
Health Reporter

The anti-smoking war has flared up again, this time over a radio advertisement which may be pulled off the air following the threat of a High Court interdict by a leading tobacco company

The Riggio Tobacco Corporation of New York threatened the Cancer Association of SA with legal action if it did not withdraw an advert which Riggio claimed infringed its trademark rights

The offending phrase in the radio advert, "That's the one", is part of the Lexington cigarette advert

Cansa said their advert would be withdrawn

The advert played on the irony inherent in much cigarette advertising which associated smoking with well-being, good health and glamour, said Katherine Everett, director of health promotions for Cansa

Everett said they would like to contest the tobacco company's action because the use of "such an innocuous, commonly used phrase" did not constitute the violation of a registered trademark

"Cansa is currently taking legal advice, but is not in a position to risk public donations in a court action against a wealthy tobacco company," said Everett

Everett said the tobacco company's threat had not scared the organisation off lobbying for the total ban on tobacco advertising – including sponsorship for sport – and demanding that smoking be banned in public places

The Riggio Tobacco Corporation of New York, the trademark owners of the phrase "That's the one", sent a final letter of demand to Cansa saying legal action would be taken unless the advert was pulled off air.

- **ACTIVITIES** *Holding company with media and entertainment interests*
- **CONTROL** *Johnnic 43%*
- **CHAIRMAN·** *V G Bray*
- **CAPITAL STRUCTURE** *60,5m ords Market capitalisation R4,5bn*
- **SHARE MARKET** *Price R74,50 Yields 0,8% on dividend, 3,4% on earnings, p e ratio, 29,1, cover, 4,1 12-month high, R78,50, low, R37,50 Trading volume last quarter, 3,1m shares*

Year to March 31	'94	'95	'96	'97
ST debt (Rm)	92,1	10,9	29,7	89,6
LT debt (Rm)	33,2	21,9	41,7	92,1
Shareholders' interest	0,73	0,86	0,91	0,87
Turnover (Rm)	1 467	1 708	1 990	2 215
Pre-int profit (Rm)	183	164	174,3	208,8
Earnings (c)	235	161	229	256
Dividends (c)	60	45	54	62
Tangible NAV (c)	1 313	1 026	1 115	1 514

licence conditions proposed by the Independent Broadcasting Authority Bray expects subscription TV group MIH (last of the three Ms in which it has an interest — 35,1%) to continue to report development losses for at least the next two years

On the retail side, Omni must have been relieved when Wooltru announced earlier this month that it would buy the CNA part of CNA Gallo, leaving behind the more profitable Nu Metro and Gallo Its absence should enhance performance this year

Uncertainty whether Omni's shares in TML will be distributed or whether the media group will be delisted has become an issue for investors New shareholder Johnnic is still deciding what to do

Bray says "all interests are well poised to show positive earnings growth for the coming year" But this will depend on whether the economy can hold Apart from this, Omni's share price is sensitive to numerous uncertainties at subsidiary and associate companies Hold

Heather Formby

RICHEMONT (198)

It's all in a name

FM 22/8/97

Though tobacco dominates now, other earnings could catch up fast

Names like Cartier, Vacheron Constantin, James Purdey, Dunhill and Baume & Mercier form the fabric of everything associated with the rich and famous These old established firms produce the most famous, if not the best, luxury branded goods in the world

Richemont, the Swiss-based company controlled ultimately by the Rupert and Hertzog families who control Rembrandt, controls them all — and more

As "big" as these names may be, the sale of tobacco products is still the international passport to the Ruperts' pleasure Tobacco sales produce by far the bulk of Richemont's attributable profit via a controlling interest in Rothmans International, though for how long is a matter for conjecture as other activities expand

CE Johann Rupert is confident of the future of the smoking industry (see Remgro report) But the most significant move was the merger of Richemont's media interests, formerly held by NetHold, with those of Canal+

The merger has created Europe's largest pay-TV operator in which Richemont holds an effective 15%

The merger was concluded only after the financial year-end Consequently, the fig-

- **ACTIVITIES** *Tobacco, luxury goods, electronic media and direct retailing*
- **CONTROL** *Rupert and Hertzog families*
- **CHAIRMAN** *N Sonn MD J Rupert*
- **CAPITAL STRUCTURE** *5,2m "A" bearer shares, 5,2m "B" registered shares Market capitalisation R36,7bn*
- **SHARE MARKET** *Price R64 Yields 1,1% on dividend, 5,9% on earnings, p e ratio, 17,0, cover, 5,6 12-month high, R75, low, R55 Trading volume last quarter, 26,4m shares*

Year to March 31	'94	'95	'96	'97
ST debt (Rm)	391	474	519	414
LT debt (Rm)	136	103	1 109	1 182
Debt equity ratio	n/a	n/a	0,23	0,20
Turnover (£bn)	3,67	3,85	4,31	4,76
Pre-int profit (£m)	476	765	893	1 135
Earnings (£/unit)	35,38	45,61	55,05	52,75
Dividends (£/unit)	6,15	7	8	9,4

ures include NetHold's results for the full year They were not good Due, in particular, to expansion efforts and the launch of digital pay-TV services and sport channels in a number of European and African

(198)

REMBRANDT GROUP

198

On top of Old Smoky

FM 22/8/97

Despite antismoking campaigns the cash pile just grows and grows

- **ACTIVITIES** *Investments in tobacco products, banking and financial services, printing and packaging, engineering and motor components, adhesives, life assurance, medical services, mining, petrochemical products, pulp and paper, cellular and food, wine and spirits and other trademark products*
- **CONTROL** *Rupert and Hertzog families*
- **CHAIRMAN** *J Rupert MD M H Visser*
- **CAPITAL STRUCTURE** *522m ords Market capitalisation R24,3bn*
- **SHARE MARKET:** *Price R46,50 Yields 1,65% on dividend, 9,1% on earnings, p e ratio, 11,0, cover, 5,5 12-month high, R49,75, low, R34 Trading volume last quarter, 15,2m shares*

Year to March 31	'94	'95	'96	'97
ST debt (Rm)	79	85	140	208
LT debt (Rm)	604	648	744	288
Shareholders' interest	0,84	0,88	0,93	0,94
Int & leasing cover	18,9	16,0	6,8	5,0
Return on cap (%)	14,9	12,2	4,1	1,7
Turnover (Rbn)	4,70	5,37	7,36	7,04
Pre-int profit (Rbn)	1,49	1,58	1,11	0,54
Earnings (c)	201	*182	*284	*423
Dividends (c)	†43,4	50,0	62,45	76,84
Tangible NAV (c)	1 707	2 101	4 625	5 472

* After exceptional items † Excludes special dividend of 14,52c

Much negativity surrounds cigarette consumption Antismoking campaigns continue to mount in Western countries Despite these pressures UK-based Rothmans International (RI) lifted tobacco sales revenues by 4% to £3,3bn (R23,6bn at an average exchange rate of £1=R7,14)

The result in constant money terms was actually better But the strength of sterling held back earnings growth

Remgro in effect holds 33,3% of RIH, now the fourth largest international tobacco company This, together with investments in the SA wine and spirit industry, is known as the "trademark" group It contributed 55,2% of earnings before exceptional items

That growth rate, though, has little to do with the 49% rise in consolidated earnings This was influenced by exceptional income of 51,5c a share, mainly capital surpluses on disposal of long-term investments

Johann Rupert

Results are not strictly comparable Turnover and operating and equity accounted income have been significantly influenced by the transfer of SA tobacco interests to RI Rainbow Chicken, previously equity accounted, is now consolidated And HL&H Timber was sold on April 1 1996

But it is evident from the segmental table that all divisions did well

An impressive 34% increase in earnings came from the trademark group As ever, chairman Johann Rupert discloses only scanty information about monetary profits

What is clear, however, is that Europe, when measured in constant currencies, had a buoyant year Profit from the sale of tobacco products grew by 24% In the accounts, though, operating profit was only 14% higher, still commendable

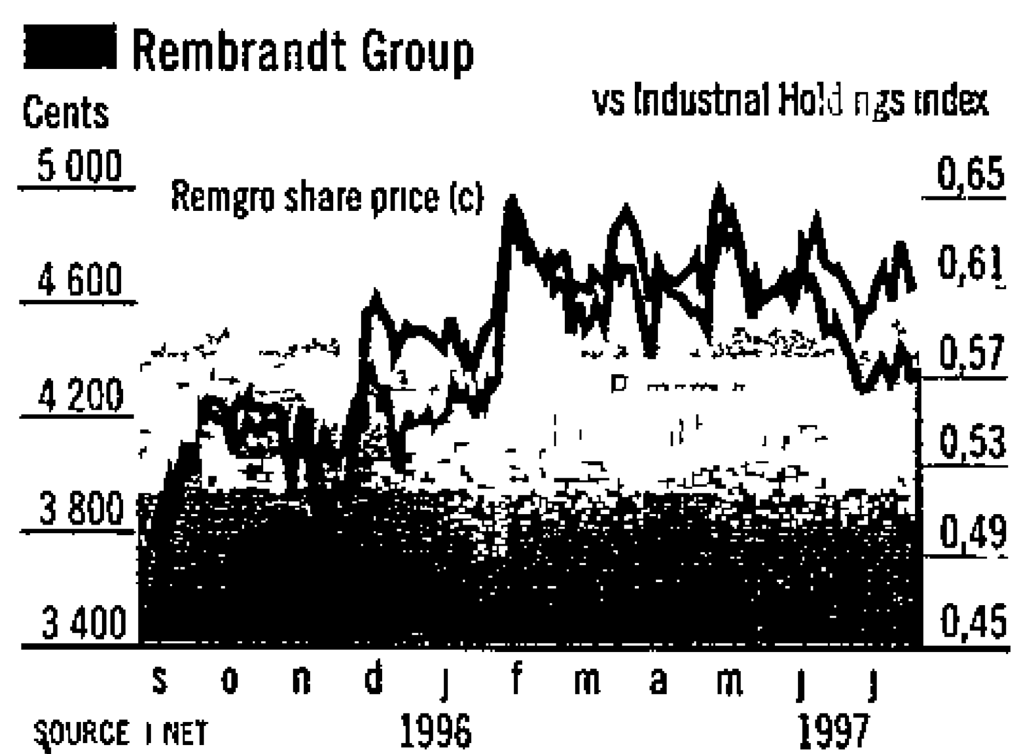
Across Africa and the Middle East tobacco operating profit fell by 11% (against a 6% increase in constant currencies, mostly because of the weakness of the rand In North America, principally in Canada, operating profit rose 11% Across Asia operating profits were 4% better but in the Pacific region profits more than doubled after the Australian price war ended

Interests in the wine and spirit industry fared satisfactorily

Mining was the second largest earnings contributor as high returns from Gencor, Gold Fields of SA and Trans Hex increased its pre-exceptional earnings by 40%

The corporate segment lifted earnings by 11,6% This embraces treasury, group services and portfolio management of offshore assets In addition it holds 49,9% of Medi-Clinic 27% of Persbel, 13,5% of Vodacom and 49,8% of Tracker Network

Despite yet another difficult year at Rainbow industrial interests enjoyed a 28,3% increase in pre-exceptional earnings Rainbow's losses necessitated recapitalisation In financial services, both Absa and Sage delivered gratifying earnings increases



Rupert points out that "world demand for cigarettes continues to grow at just under 1% a year" and is confident that "the tobacco industry faces a long and profitable future" He adds that "RI will continue to achieve profit and volume growth"

Strategic investments in mining are not without risk exposure to a volatile gold price on the one hand and potential benefits from adroit mining management on the other Its industrial portfolio is arguably in better shape than for a long time to take advantage of an upturn in the economy — when it comes And both Absa and Sage appear to have sound growth prospects

Then there is the question of what Remgro intends to do with its cash pile, now R1,63bn It has grown by a compound 24% a year for the past three years

Well over half Remgro's investments are in hedge stocks This has a definite appeal And a p e ratio of 11 seems conservative Yet technical analysis suggests caution The sustained upward trend that began in July 1995 is in danger of breaking While the share should be held, wisdom suggests buyers should withdraw to the sidelines until the position clarifies **Gerald Hirshon**

PREMIER GROUP

Lower interest the big boost

Better trading at Metro and Foods offset some other disappointments

Chairman Doug Band describes 1997 performance, with headline EPS up 32%, as a decisive and resilient response to tough trading conditions But it could not prevent a squeeze on trading margins, and Band admits that interest saved by the 1996 rights issue was the major contributor

Premier continues to rationalise underperforming businesses There were R101m restructuring and retrenchment costs, primarily in Premier Foods and CNA Gallo

Premier Foods hiked headline earnings

Star 26/8/97

'Sport is for health, tobacco is for death' (198)

Unlike alcohol, which is beneficial in small quantities, tobacco has no health value, and to allow tobacco sponsorships while limiting tobacco advertising is contradictory, says the Cancer Association

Sports sponsorships are major advertising opportunities and only 25% of funds earmarked for sponsorships actually get to the sport or event – the remainder go to promotions, says Tami Toroyan, of the association's health-promotion division

Australian studies show that children smoke brands that sponsor sports in their areas, she says.

The Banking, Insurance, Finance and Assurance Workers' Union (Bifawu) has expressed concern over Health Minister Nkosazana Zuma's intention to prevent cigarette companies from sponsoring soccer, while allowing sponsorships from liquor companies such as SA Breweries, the major backer of the PSL's Castle League competition and the national senior side

Bifawu spokesman Lucky Monnakgotla says both are detrimental to health and deserve equal condemnation.

The union says it does not understand how Zuma distinguishes between the two

Professor Harry Seftel, chairman of the Council Against Smoking, says tobacco companies should not sponsor anything

"Sport is for health, tobacco for death There is no such thing as moderate smoking. Tobacco damages everything you need to be a good sportsman: the heart, lungs, blood and blood vessels You knew that in kindergarten," he says.

Toroyan says a health-promotion fund, funded by a percentage of cigarette tax, could replace tobacco sponsorship of sports, arts and culture Banning tobacco advertising also gives other major advertisers the opportunity to capitalise on the opportunity, she says.

Rothmans of Pall Mall is sponsoring the Premier Soccer League's Rothmans Cup knockout competition for R26-million over the next three years

Tension over sponsorship is also evident in Formula One racing, which tobacco companies support to the tune of R730-million a year – Staff Reporter

Analysts say the move relates to cash conservation ahead of offshore manoeuvres

Rembrandt raises dividend

CT(BR) 28/8/97 (198)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Rembrandt, the tobacco and industrial conglomerate, yesterday hiked its interim dividend payout 16,4 percent to 33,81c — a move analysts believe relates to cash conservation ahead of offshore manoeuvres

Rembrandt's stablemates, Rembrandt Controlling Investments (25,03c), Technical and Industrial Investments (23,28c) and Technical Investment Corporation (21,96c), all increased their half-year payouts by 15 percent.

It is traditional for Rembrandt companies to declare dividends in advance of the publication of the financial results The interim period ends on September 30

The dividend increases appear modest compared with last year when the interim payout was hiked 20 percent and the final dividend by 25 percent

Carel Oosthuizen, the head of research at SMK Securities, said yesterday the dividend increases were substantially lower than the more than 30 percent increase in bottom line profits for the financial year to March 31 this year

But he stressed the move might not necessarily mean a more difficult financial year for Rembrandt

He suggested the company could be conserving cash for future transactions

"There could be something major in the offing, especially with exchange control set to go Rembrandt has a lot of international experience and is tremendously aware of opportunities abroad"

Oosthuizen also speculated that the more conservative dividend declarations could relate to Rembrandt feeling constrained because Rothmans International, the company's tobacco and cigarette associate, had some gearing

At Rembrandt's annual meeting yesterday, Johann Rupert, the chairman, placated shareholders' concerns over problem investments like Rainbow Chicken and Gold Fields.

He said returns from the company's investment in Vodacom, the cellular service provider, would more than compensate for a poor performance from Rainbow Chicken or Gold Fields in the year ahead

In his annual report, he predicted a long and profitable future for the tobacco industry

Rembrandt shed 45c to R47,50 on the JSE yesterday and 132 900 shares changed hands

□ Business Watch

Forestry company bounces back into the black

~~Forestry~~ CT(BR) 28/8/97

MATT GETZ

Johannesburg — Yorkcor, the forestry products company, bounced back from two losing halves to record a R5,4 million turnaround in the six months to end June, the company said yesterday

The company earned R1,48 million after tax (-R3,71 million) Turnover rose 41 percent to R27,8 million Earnings a share were 14c, after a loss of 36,5c.

At the end of the period, Yorkcor had long-term debts of R15,86 million and short-term debt of R3,2 million, giving it a gearing ratio of 74 percent, well up on the 63 percent recorded previously

Solly Tucker, the chairman of Yorkcor, said the results were achieved "in the teeth of continuing tough conditions in the sawmilling industry"

Since before the beginning of the period, his company has been involved in legal battles with the state-owned South African Forestry Company and the water affairs and forestry department

Tucker said he believed Yorkcor would meet or beat most targets The company forecast full-year earnings of 25c, a figure he said should be more than matched

He said earnings and gearing would determine the company's decision on dividends

Batsa signs up distribution partner in Soweto

(198) CT(BR) 2/9/97

NCABA HLOPHE

Johannesburg — British American Tobacco South Africa (Batsa) yesterday signed a distribution partnership with Saint M Wholesalers in Soweto, a medium-sized business operation, projected to generate turnover of more than R15 million in the first year of business.

The partnership is part of an empowerment drive by Batsa and creates at least 20 job opportunities for local people

Saint Madlala emerged as the best strategic partner with a shared vision and business acumen after a careful selection process

The partnership has been in operation for two months and involves the supply of Batsa tobacco products for distribution by Saint M Wholesalers

"Should this partnership model prove to be successful, British American Tobacco will consider rolling it to other areas and therefore creating further channels for distribution and empowerment," said Steven Jurgens, the managing director of Batsa

SIGN OF THINGS TO COME *Batsa extended its empowerment drive when Steven Jurgens, its managing director, and Saint Madlala, of Saint M Wholesalers, signed a distribution agreement that will channel the tobacco group's goods to Soweto* PHOTO JOHN WOODROOF

Madlala, the managing director of the wholesaler, said the partnership would bolster his market penetration and offered training opportunities for his employees

It would help local people in Soweto as it was planned to create job opportunities and could assist in reducing crime and poverty, he said

"We should look at the development spinoffs and we as business people should stop the crime wave by refusing to buy stolen items and expose criminal dealings"

Madlala, who has been in business for 20 years, has interests in soft drinks, liquor, retailing, construction, earthmoving, security services and financial services

Distribution from schools would be restricted because he did not want to encourage smoking habits among children, he said

Batsa has been in the country for 90 years and manufactures international brands such as Benson & Hedges, John Player Gold Leaf, Embassy, Albany, Club 10 and BB tobacco, which are marketed to 180 countries worldwide implemented Kriel said the mea- | the provincial government had cash-flow | team would report back next week. — Sapa

Official gives anti-tobacco sponsorship lobby a boost

(198)

CAPE TOWN — Moves to ban the tobacco industry's sponsorship of sport received a boost yesterday when a senior health department official came out strongly for stricter controls

Director of health promotion, Dr Gonda Perez, said she was impressed by the pioneering tobacco control model that had been introduced in the Australian state of Victoria, which she visited last month.

A percentage of tobacco tax was given to a health promotion foundation to sponsor sporting and cultural events, such as basketball and ballet.

"There is no reliance on tobacco companies' sports sponsorship," said Perez

BD 7/11/97

The anti-smoking campaign was so successful that at a sporting event she attended, "not one" of a crowd of 15 000 people smoked

She had been tremendously impressed and would advise Health Minister Dr Nkosazana Zuma on aspects that could be adapted to the SA situation, she said.

"Personally, I would like to see a scenario where tobacco sponsorship of sport is not allowed"

Australia has banned tobacco company sponsorship of all sports, except international-level events that would not come to the country without industry help

Proposals that there should be a tax-funded foundation in SA have already received the support of the Cancer Association and the National Council Against Smoking

The association says there are 11 countries that already fund health promotion through tobacco taxes, and others, including Britain, are considering the option.

Zuma's spokesman Vincent Hlongwane said a total ban on sponsorship was one of the options being considered for tobacco control legislation This was due to come before Parliament early next year.

However, no decision had been taken and Perez's Australian visit was part of wide-ranging consultations on the issue

The new legislation is expected to control smoking in the workplace — Sapa.

Security industry 'vital' in SA

BD 7/11/97 (~~286~~) 287

Pule Molebeledi

THE death rate among SA's police officers was "unacceptably high" and measures were needed to protect them, deputy Safety and Security Minister Joe Mathews has said.

At a ceremony at the Security Officers' Board offices in Pretoria to honour 28 security officers for acts of bravery, Mathews said the security industry had a vital role in helping the safety and security department.

"Your role is becoming increasingly important as the crime wave persists and criminals become bolder by the day," he said

He praised the recipients of the award and paid tribute to officers who had died on duty at the hands of criminals The officers included three killed in the line of duty, whose medals were conferred on them posthumously

They were honoured for acts of bravery ranging from arresting armed robbers to saving a child from a pitbull terrier attack Thirteen security officers were awarded gold medals, 12 silver and three bronze

Commenting on the "widely publicised" highway ambushes of security vans carrying cash, Mathews said it was clear that international crime syndicates with local surrogates had targeted all financial institutions

He said the robberies had a devastating effect on the economy and were a threat to the newfound democracy

Mathews assured the industry that proposed amendments to the Security Officers Bill and the revisiting of the Criminal Procedure Act — were procedures aimed at streamlining the industry and not inhibiting it.

Stakeholders walk out of tobacco forum

(198) BD 10/11/97

Louise Cook

THE future of Tobacco RSA, a non-profit company created in January after the closure of the tobacco board last year, is in the balance less than a year after its inception

The company was set up to act as a forum to represent the interests of the local tobacco industry, but some of the stakeholders have already left, saying they disagreed with the way things were run

British American Tobacco MD Steven Jurgens said his company disagreed with having to buy a fixed amount of local tobacco, price negotiation processes between farmers and manufacturers, disclosure of sensitive information around prices and price manipulation.

"This happened under the old regime of the tobacco board, but indications are that Tobacco RSA was trying to go this cosy route again. We are keeping our options open "

Jurgens called for the practice of freemarket principles, saying price negotiations were too cosy.

Tony Feldman, the MD of tobacco merchant Pro-leaf, said his biggest problem was the expectation that sensitive trade information be shared by the different stakeholders and between farmers, manufacturers and co-operatives

"I do not feel we have to be put in a situation where we have to divulge that information "

Tobacco RSA chairman Wrench Louw disagreed with these comments, saying it was not expected that the parties commit to buying fixed quantities from local farmers.

"All we want is some indication of how much might be taken up before farmers plant. This does not mean farmers cannot also export and that the whole crop must be sold locally "

Louw said the mission of Tobacco RSA was still in the process of being finalised, but effectively it would end up being no more than a forum.

Farmers, merchants and manufacturers have a stake in Tobacco RSA. It is funded through voluntary levies from manufacturers

It is understood that another merchant, Tobacco Services, has walked out on Tobacco RSA, but this could not be confirmed.

The Johannesburg-based manufacturer Dinglers has also left, but MD Andre Oosthuizen has refused to comment

Marlboro man hesitates on the border

(198)

Simon Barber

WASHINGTON — A UK court is expected to rule soon on allegations by the Rembrandt Group that US tobacco manufacturer Philip Morris is allowing its Marlboro cigarettes to be smuggled into SA from neighbouring countries — effectively vitiating SA rights to the brand Rembrandt acquired in 1981.

On the surface, the suit, brought by Rembrandt, centres on the enforceability of those rights, which the company asserts it purchased as part of a $350m payment to Philip Morris for a 22% stake in Rothmans The US company now questions these rights

But court documents obtained by the New York Times, show that the central, unpublicised issue, is smuggling, which critics charge has been increasingly sanctioned by tobacco companies battling to grab market share in developing countries

At the UK trial, which ended last week, no evidence was led that Philip Morris was involved in allowing contraband Marlboros to enter the SA market That this was the key underlying issue , however, was revealed in nonpublic written pleadings by Rembrandt to the court These alleged that the trade in Marlboros across SA's borders was a violation of Rembrandt's rights Philip Morris has been selling to wholesalers in Mozambique, Namibia, Botswana and Zambia since 1994

When the Times put Rembrandt's allegations to David Davies, chief counsel for Philip Morris Europe, he replied "We are aware that contraband Marlboros have shown up in SA, but we have no reason to believe that any of our customers are involved in the contraband trade "

Davies was quoted as countercharging that the brands most commonly smuggled into SA were Peter Stuyvesant and Rothmans, both — like Marlboro — made under licence in SA by Rembrandt The suggestion was that Rembrandt was turning a blind eye as large quantities of its cigarettes were round-tripped — exported from SA and then smuggled back to avoid taxes and duties

BD 24/11/97

Gauteng plans own set of anti-smoking laws

Josey Ballenger

GOVERNMENT's national anti-smoking campaign had resulted in a drop in tobacco sales, and Gauteng would introduce legislation next year to ban smoking in public areas, provincial health MEC Amos Masondo and department officials said yesterday

"National legislation to enforce health warnings on tobacco advertising, together with the steep increases in tobacco tax, have probably been the most effective anti-smoking measures this country has seen," Masondo said at the launch of Gauteng's Health Promotion Week in Johannesburg

Officials said a recent study by Market Research Africa showed that national tobacco sales had dropped 2% since the tax increase and warnings on advertising

Masondo said the Gauteng legislature would consider its first health legislation next year and would become "increasingly involved in national debates"

Gauteng health department communications director Jo-Anne Collinge later said the legislation would complement the National Health Bill and other expected national legislation

Masondo's spokesman, Popo Maja, said a proposal to prohibit smoking in public places would supplement the Tobacco Products Control Amendment Bill

Masondo also said the "gap" between what South Africans knew about HIV and AIDS, and their sexual behaviour, had to close "The tragedy is that this gap is fatal — not only in a handful of cases, but for millions"

He said Gauteng had taken the lead in introducing a life skills programme in schools "We believe that information is but one of the tools in the fight against social inequality"

The Gauteng legislature's health portfolio committee chairman, Mondli Gungubele, said it was in government's and the public interest to prevent illness, as "unfit" people were unable to contribute to society. (198)

Rembrandt posts modest profit

CT (BR) 2/12/97 (198)

Marc Hasenfuss
CAPE EDITOR

Cape Town — The Rembrandt Group, the tobacco and industrial conglomerate, performed in line with more modest market expectations to report a 16 percent increase in net income to just over R1 billion in the half-year to September 30

Headline earnings came in proportionally higher at R2,03, with the dividend — already declared several months ago — increased 15 percent to 33,81c.

Carel Oosthuizen, the head of research at SMK Securities, said yesterday that the interim performance suggested full-year earnings of around R4,38, an 18 percent gain over last year's results

"The interim results were as good as could be expected," he said Mining interests (including Gold Fields, Gencor and Trans Hex) were up only slightly at R180 million, while the contribution from the company's industrial interests was whittled down to R35 million

In the period under review, Rembrandt's mainstay trademark interests — comprising a one-third interest in Rothmans International and major stakes in various listed and unlisted liquor companies — increased their contribution to bottom line by 23 percent to R605 million

Johann Rupert, the chairman of Rembrandt, said that Rothmans International was hampered by the pound's relative strength, which affected the results of subsidiaries not reporting in sterling

"However, the weaker rand had a positive effect of some R45 million on the translation of Rembrandt's share of Rothmans International's sterling profits"

A segmental analysis of Rembrandt's remaining interests showed financial services (including Sage and Absa) reporting a 25 percent jump in net profit to R85 million and corporate finance and other interests (including Vodacom, Medi-Clinic, Perskor and interest from Rembrandt's cash pile) increasing its contribution 23 percent to R154 million

□ Business Watch, Page 16

CSS figures show 20% decline in retail cigarette sales

Tobacco losing sales war

CT (BR) 4/12/97 (198)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Government's efforts to nip smoking in the bud are bearing fruit, with figures released yesterday by the Central Statistical Service showing real sales of cigarettes and tobacco declining by 20 percent in the third quarter this year from the same time last year

The centrepiece of government's anti-smoking campaign was a decision in 1994 to gradually increase the tax on cigarettes to half the retail price This was achieved in March this year, when the excise duties on cigarettes and tobacco were increased by 52 percent, or 27c a pack of 10 cigarettes

George Kershoff, an economist of the Bureau for Economic Research at the University of Stellenbosch, ascribed the huge drop in cigarette and tobacco sales to the increase in the excise duty and other aspects of government's anti-smoking lobby, including advertising campaigns

"Illegal sales of cigarettes are not included in the official sales figures, but this would not have affected the sales figures materially," Kershoff said

The sales of alcoholic and non-alcoholic beverages dropped by 8 percent in the third quarter from the same quarter last year Kershoff said big hikes in the excise duties in the March Budget also cut product demand

Excise on sorghum beer rose by 35 percent and on unfortified, fortified and sparkling wines by 25 percent after the Budget.

"Large-scale switching to cheaper liquor products after the price increase might have pushed sales of more expensive products down," Kershoff said

The service said total retail sales (seasonally adjusted) dropped 1,5 percent from August to September this year, while third-quarter sales were 0,7 percent lower than in the same quarter last year

Total sales were reduced by a 7,4 percent decline in the real sales of food and groceries (including cigarette, tobacco and liquor) in the third quarter from the same quarter last year

Other products with weak sales were toiletries and cosmetics (4,1 percent down, quarter on quarter) and books and magazines (7,4 percent down)

The bureau expected retail sales to remain weak until the middle of next year "The positive effect of (an) interest rate cut in the first half of next year is only expected to be reflected in stronger retail sales in the second half of next year," Kershoff said

BA abandons tobacco forum

BD 11/12/97 (198)

Louise Cook

TOBACCO product manufacturer BA Tobacco has become the latest industry participant to abandon Tobacco RSA — the nonprofit forum set up as a forum after the closure of the Tobacco Board

Pro-leaf merchants, Dinglers and Tobacco Services walked out of the forum earlier this year

SA's largest tobacco producer, MKTV Co-operative, said yesterday it would join forces with BA Tobacco to help speed up reform of the industry.

BA Tobacco MD Steven Jurgens said a body was required that could add value to the industry "Negotiating prices and volumes is simply not part of a free market"

MKTV shared Jurgens' sentiments, saying it had called for a special meeting of the directors of Tobacco RSA where the co-operative would propose that the forum be dissolved forthwith, a year after inception Functions like farmer development and research management could be taken over by the Tobacco Institute in Pretoria

MKTV chairman Francois Van der Merwe said Tobacco RSA had failed to move to a free market at an acceptable pace, while becoming involved in price negotiations and volume setting

Tobacco RSA chairman Wrench Louw denied any interference with the free market, saying noone was expected to buy committed quantities of tobacco All that was needed was "an indication of how much would be taken up" before farmers planted

But Jurgens said Louw was "not in tune with the times" BA Tobacco's contribution to covering the forum's operational expenses is about R500 000 a year, but it is understood role players like Rembrandt contribute far more

More laws against smoking

(198)

Sowetan 17/12/97

Health Minister plans legislation that will stop tobacco advertising

By Mokgadi Pela

PLANS are afoot to further tighten tobacco legislation in South Africa as the Department of Health intensifies its battle against smoking and its deleterious health effects.

According to Health Minister Dr Nkosazana Zuma the department held a workshop early this year with a range of stakeholders which identified gaps in current legislation that allows tobacco companies to advertise their products indirectly through sponsorship of sporting and cultural activities.

The workshop recommended that legislation be amended to ban advertising and promotion of tobacco products, raise the legal age at which a child can buy tobacco to 18, restrict the use of vending machines and smoking in work and public places.

Zuma said research showed that many people started smoking before they were 20 years. "Our target therefore, should be young people who are daily bombarded with enticing messages which suggest that it is macho to smoke," she said.

Zuma said the health warning labels on cigarette packets had been well received by the public.

A survey conducted by the Human Sciences Research Council (HSRC) and the Medical Research Council (MRC) indicated that 81 percent of adults believe that it was a "good thing" to have the health warnings and 77 percent said the warnings were easy to understand.

About 58 percent of smokers said the warnings made them want to quit, cut down or change to a lighter brand, while 38 percent of nonsmokers said they made them glad they never started.

Zuma said she was glad that the department and other organisations had introduced new anti-tobacco advertisements on radio.