Manufacturing - Tobacco
1993
Tobacco exports lost R8.9m

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.
Peace hopes fade

Jihadists in Ngal Mubandis in danger. Schoolgirls fell „pack of lies“

Grenade attack on police in blast at shops

By Israeli Legislation

Last gap for health warning and smoking

Funeral for victim

Brief

Grenade Attack IP Official in

Peace hopes fade

Jackson Wednesday March 24 1993
CAPE TOWN — The price of partying has just gone up.

Finance Minister Derek Key's 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 R220m 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),
- 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 (R18,6m),
- Other fermented drinks, eg, cider 10c a litre (R220 000),
- Sorghum beer and beer powder 1c a litre and 5c a kg (increased revenue of R86m), and
- Cold drinks and mineral water 2c a litre (R24m).
Few cheers over Budget

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 44 percent VAT rate, will cost R4.77.

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.
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.
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 ord. Market capitalisation: R336m
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: 4,0143
shares
Year to Dec 31

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<td>55</td>
<td>64</td>
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<td>Earnings (c)</td>
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<td>Dividends (c)</td>
<td>193</td>
<td>268</td>
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<td>Net worth (c)</td>
<td>1,540</td>
<td>1,703</td>
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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 Williams’ Parow plant and the Unit-

on the market trend, 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. Chonn 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.

Martyn Gregg
Utico gears up for even tastier results

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 an 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 10.5% turnover rise to R573.5m.

The interest bill rose by 63.4% to R9.8m as the full effect of the investment in the Rustenburg factory 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 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, Cheese Buns 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

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 60 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 the tobacco market will show negligible volume growth for the year to March because of the pressure on consumer spending and increased excise duties.

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 significantly 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 off its overseas investments into Richmont 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 Leechars & 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 1985 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 Behrendt 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.
Utico growth slows after record-breaking six years

TOBACCO and snacks group Utico increased its attributable income by 12.5% to R21.9m (R20.3m) 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 65.4% higher at R5.9m (R3.6m) as the full effect of the investment in the Williards Parow plant was felt. Interest cover remained a high 10.9 times.

Earnings, which were 12.5% up at 53c (46c) a share, had increased by 11.4% at the interim stage and by 13.1% in the second six months.

A final dividend of 19c a share was declared, to bring the year dividend up by 17.1% to 31c (28c) 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 R6.40, after touching a low of R5.30 in September.

MARCIA KLEIN
durable 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 Choman. "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**

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<tr>
<th>Year to</th>
<th>Dec 31 91</th>
<th>Dec 31 92</th>
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<tr>
<td>Turnover (Rm)</td>
<td>517</td>
<td>573</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>66.5</td>
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<td>Attributable (Rm)</td>
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<tr>
<td>Earnings (c)</td>
<td>466</td>
<td>524</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>280</td>
<td>314</td>
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Underlying this, says Edmunds, is the full effect of the investment in Wills' 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. Choman 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 depresssing 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 weather 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 R22.50) which has performed well against the Financial & Industrial index since 1990. It has climbed 29% since release of the interim. Latest results may offer an opportunity to increase holdings.

Marylyn Greig

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**UTICO**

Less crackle

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...
British group gets contract for SA stainless steel plant

LONDON - The international part of the Trafalgar House engineering sector. Most of the equipment will be exported to South Africa in recent years. The order is a big boost for Britain's heavy engineering sector. Most suppliers, including GEC and Bronx Engineering, have won the UK's largest contract. The order was won against strong international competition. The contract is for the expansion of Columbus' stainless steel plant at Middelburg, which will quadruple South Africa's stainless steel capacity. From France, Germany, Italy, Austria and Japan - it is the world's sixth stainless steel plant. The order will provide a complete rolling mill. Fred Bossoff, chief executive of Columbus, said there had been tremendous interest in the project. The contract is for the expansion of Columbus' stainless steel plant at Middelburg, which will quadruple South Africa's stainless steel capacity. From France, Germany, Italy, Austria and Japan - it is the world's sixth stainless steel plant. The order will provide a complete rolling mill. Fred Bossoff, chief executive of Columbus, said there had been tremendous interest in the project.
Stronger second half boosts Utico’s profits

By Stephen Cranston

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

increased from 13.5 percent to 17 percent. Interest cover was a conservative 10.8.

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 R8.11 million on the disposal of the Fresh-Up juicer division to Royal Foods.
Rembrandt's dividends rise by 11%

CAPE TOWN — Rembrandt Group companies increased their total dividend payments by a slightly better than expected 11% for the year to end-March 1983, 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 10,32c (14,81c) brought the total to 26,56c (24,14c).

Technical & Industrial Investments' final dividend of 15,16c (15,76c) gave a total of 24,93c (22,45c).
The German share price of Rho has risen since the announcement of a restructuring of the company, which includes the elimination of 9,000 jobs and the closure of several factories. The restructuring plan, announced in March, also involves the sale of the company's home appliance division, which is expected to generate €550 million in revenue. The company's shares have risen by over 20% since the announcement, indicating market confidence in the plan. The restructuring is expected to be completed by the end of 2023.
Activities: Makes, sells and distributes consumer products including lighters, matches, shaving products and packaging

Control: SAB 70.6%
Chairmen: L van der Watt, MD E M Turner
Capital structure: 45.4m ords Market capitalisation R16.8bn

Share market: Price 370c Yields 3.8% on dividend, 9.2% on earnings, p/e ratio, 10.8
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 0.8 12.7 4.3
LT debt (Rm) 57.6 48.8 23.2 23.0
Debt equity ratio 0.07 0.61 0.25 0.18
Shareholders interest 0.45 0.46 0.51 0.5
Int & leasing cover 3.4 3.4 3.1 3.5
Return on cap (%) 15.6 16.7 17.3 17.4
Turnover (Rm) 280 331 330 325
Pre-tax profit (Rm) 34 40 39 42
Pre-tax margin (%) 12.3 12.1 11.9 14.2
Earnings (c) 30.1 34.2 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 an 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 Tedex, 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 financ-
Price of a puff goes up immediately

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.

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 50 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.
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 increase 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%

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 R3.72 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

□ 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) of the group’s total earnings.

Chairman Mr Johann Rupert said in his annual review the Tobacco and Liquor 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 Tegnese Mynbeleggings (TMB) made up slightly more than a quarter (25.1 percent) of attributable earnings, increasing its contribution 5.3 percent to R238.2 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 R15.8 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

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 R182.1m, 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 5.9% to R653.7m 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 units were under increased pressure to maintain and improve quality and productivity.

The mining interests, held through wholly owned Tegmeke Mynebeleggings, increased their contribution by 5.9% to R228.2m or 25.5% 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 R191.2m or 9.7% (13%) of earnings.

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 a 11.4% rise to R78.3m or 8.2% of Remgro's new 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 13.5% because of a prior year tax surpluses of R11m, lower interest income due to lower interest rates and a decrease in the average level of surplus funds following payment of a R164.6m special dividend.

The decline also reflected the acquisition of minorities in Tegmeke Mynebeleggings for R409.7m.

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 R180m.

Rupert said Remgro paid income tax of R470.8m 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.
Ruperts Reap Rewards from Shake-up
The commercial logic of Richemont's reshuffling 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. Inertio 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 100% 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 £26m — the quoted RI is given a market value of £46m and Dunhill £66m, with nearly £21bn 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.

614m. This netted down to EPS 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 £71.8bn with £147m of the gain due to currency movements — pretax profit was 5% up at £651.9m. Recurring net attributable of £206.6m was 4% higher, giving similar gains in unit earnings and dividends.

With £295m to come from the re-shaping, Richemont can face the £62.1m 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 Duoro, 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 £23bn market value for Vendome presumes an historical multiple of 20, while on an unchanged price 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 FfR 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.

76 • FINANCIAL MAIL • JULY 2 • 1993
£525m payout to shareholders

Marcia Klein

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 Prada, Gucci, Versace, Montblanc, Chloé 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.

Payout

Current Rothmans and Dunhill shareholders would get units in both groups in proportion to the underlying value of their respective companies’ interests in tobacco and luxury goods. In addition, they would receive about £25m in cash.

Le 100 Rothmans B ordinary shares held, shareholders would receive 100 Rothmans shares, 500 Vendome shares and £250 in cash. For every 100 Dunhill shares held, shareholders would get 125 Rothmans shares, 750 Vendome shares and £450 in cash.

Richemont currently holds 62% of Rothmans and controls 55% of Cartier Monsa through its 50% ownership of Lauxco SA. Apart from its tobacco interests, Rothmans owns 25% of Dunhill and 47% of Cartier. After the restructuring, Richemont would own 61% of Rothmans and 76% of Vendome.

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

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

Richemont’s results to 31st March showed that turnover rose by 10.4% and earnings a unit increased by 17.7% to £235.99 (216.30).

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

Luxury products increased net sales revenue by 6.6% to £1.22bn, but operating profit declined Cartier Monsa’s sales revenue and operating profit were affected by reduced demand in the Far East.

Dunhill showed a 20.7% rise in net sales revenue due to acquisitions, foreign exchange effects and real sales growth. Operating profit was maintained but attributable profit declined.
Analysts welcome Richemont shake-up
Richmond, Rotthamns, Dumbell in shake-up talks

The company's representatives are meeting with a group of shareholders to discuss the possibility of merging the two companies. The representatives believe that the merger would be mutually beneficial, leading to significant cost savings and increased efficiency. The companies have similar business models and could complement each other well.

The merger talks have been ongoing for several weeks, and both companies have expressed interest in the proposal. The representatives are working to address any concerns that shareholders may have and to ensure that the merger is fair and advantageous for all stakeholders.

The meeting between the companies is scheduled for next week, and it is expected to be a key moment in the decision-making process. The representatives are eager to move forward with the merger and to build a strong, consolidated company for the future.
Richemont's share frozen

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 R45.50 the previous day and a low of R32 in August last year.

Richemont will continue to hold the majority shareholding in both groups.

Analysis 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 Carter, 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.
RICHESMON, 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.

Analysis said there were indications 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 R27.8m. But analysts said this would not have a significant effect on Richemont’s results.

On Friday, the share eased 6c or 0.5% to R42.35, but remained close to the R45 high of last month.

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

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

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.

However, Transatlantic Tobacco Company executive chairman Jacques Kruger said the losses 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 Toit said.

VAT

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

“We do not do our own VAT policing, we rely on customs to do this for us,” he said.

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

Inland Revenue was looking into several cases and would be making “examples” of those found guilty.

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.

“There is nothing possible is being done to avoid paying out fraudulent claims under GEIS,” a spokesman said.
Relying on tobacco

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 22.7%, this year it slowed to an increase of 5.8%. 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 Dobe, as well as Rainbow Chicken, held through subsidiary Huntco.

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

FINANCIAL MAIL • JUNE 18 • 1:093 • 95

SMOKE IN THEIR EYES

<table>
<thead>
<tr>
<th>Year to March 31</th>
<th>1992</th>
<th>1993</th>
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<tbody>
<tr>
<td>Pre-tax income (Rm)</td>
<td>1,17</td>
<td>1,24</td>
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<td>After tax income (Rm)</td>
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<td>Equity adjustment (Rm)</td>
<td>260,9</td>
<td>223,5</td>
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<td>Net income from normal operations (Rm)</td>
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<td>950,6</td>
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<tr>
<td>Earnings (c)</td>
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<td>182,1</td>
</tr>
<tr>
<td>— excluding associates’ share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>32.6</td>
<td>36.2</td>
</tr>
<tr>
<td>Special (c)</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

FM 19|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.

"There is nothing as 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 dropped 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.

Shane Harris
Tobacco crop

TOKING CHINA

Touring China is quite convenient with modern airplanes and train services. However, to experience the local culture, you might want to take a traditional boat ride or try some local cuisine. The weather in China is generally mild, but it can be quite humid in some areas.

Current events:

Recent in two weeks.

Foreign Foreign exchange is tight China. The renminbi has been relatively stable, but fluctuations may occur. Please consult the latest currency exchange rates before making any financial transactions.

Business & Technology

In addition to the traditional methods, China is also embracing technology. The country is making significant progress in fields such as AI, biotechnology, and renewable energy. The government is investing heavily in these sectors to promote innovation and sustainable development.

Touring China
Some of the lustre goes out of Remgro

By Stephen Cranston

Despite a sharp fall in contributions from its food and timber subsidiary Huntco and associated Gelcor Beherend and Fralex and a loss from Dohy, the Rembrandt Group has increased earnings per share by a marginal one percent to 182c.

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 million. This included a 2.9 percent increase in dividend income to R227.6 million.

But there was a sharp increase in the effective tax rate from 30.3 percent to 30.7 percent, which brought tax income up 1.5 percent to R759.3 million.

As dividends had already been declared, there was only a R1.6 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 manufacturing, however, was down by more than half from R76.5 million to R35.2 million, mainly because of the 51 percent decline in Huntco'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 Tegnese Mynebeleggings (TMB), a wholly owned subsidiary, who elected not to exercise their option to subscribe for ordinary TMB shares.
Remgro's 1% rise less than expected

MARCIA KLEIN

Rembrandt Group's (Remgro) pedestrian figure in earnings to R18.3c (18.3c) a share in the year to end-March was below expectations, market sources said yesterday.

Rembrandt's dividend of 19.5c is 11% higher than last year's 17.5c a share. Tobacoconglomerate Rembrandt's tobacco operations are expected to contribute about R150m to the group's earnings. Analysts say Rembrandt could declare an estimated dividend of 19.5c a share.

They had forecast slightly higher earnings growth of 5% to 6% for the year.

As the results of most of the listed interests were known, contribution from core tobacco interests must have been lower. There had been industrial action in some of Remgro's tobacco operations.

Net income before tax was up 6% to R149.2m (R135.3m), and net income after tax increased by 5% to R119.2m (R111.8m).

Technical Investment Corporation (Tegkor), which holds 51.1% of Remgro, increased its earnings to R15.0c (13.3c) a share and declared a final dividend of 16.9c a share.

With an effective 17% interest in Tegkor and Rembrandt Controlling Investments, reported earnings of 128.3c (124.2c) a share, Remgro's final dividend was 15.16c a share.

Source: REMBRANDT

Directed said earnings, excluding the interest on retained income of associates, consisting mainly of cash earnings, increased by 4% to R138.1c (135.3c) a share.

Technical and Industrial Investments, which holds 51.1% of Remgro, increased its earnings to R149.2m (135.3m) a share and declared a final dividend of 16.9c a share.

Technical Investment Corporation (Tegkor), which has an effective 20.7% interest in Remgro through its holding in Rembrandt Controlling Investments, reported earnings of R118.2c (117.16c) a share. It declared a final dividend of 14.5c a share.

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'

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 R13,4m 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 R25,9m 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 cost 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 move off less maintenance 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 55%.

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

In the shaving, home and garden divisions, 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 R5m of "a disappointing R6m". Van der Watt said the rationisation programme was largely complete, and its performance was expected to improve substantially in the current year.
Richemont down as Dunhill slumps

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 Bothmans 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.

He reported a 7% drop in pre-tax profits in the 12 months to March at £100.7m, with operating profits slightly down from £33.7m to £28.5m but with the final dividend up from 4.55p 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.
Rothmans in Russia good for long term

By Stephen Cranston

Rothmans, in Russia, the company'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 Grevensteyn, an analyst at brokers Davids 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 Grevensteyn.

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.
NEWS EXPANSION and

RESURGENTING PAY OFF

from Lyon Match

Bright Showing

OZZ to GROW WITH UNIHOLD DEAL

COMPANIES

Edward West

SIGNIFICANTLY REDUCED IT

MARGARET KEEIN
Disappointing prices

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 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 is 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.
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 19.8 percent and this improvement in the operating margin was achieved through tight cost control and the curtailing 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 Induma.

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, Cheesnaks 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 Tobacco modernisation programme is continuing. It will increase borrowings, but gearing is expected to remain low.
UTICO Fun 2018/93

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 distorted 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.

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 Choonn 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 Williams 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.

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 tradability a problem, as most shares are held by BAT Industries Plc, investors should maintain their exposure to the counter.

MaryLou Greg
Low demand for luxury goods hits Richemont

Reports of lower worldwide demand for luxury goods, and the effect this would have on certain Richemont investments, saw the share price fall to R40 on Friday to continue the previous day's downward trend.

Richemont and subsidiaries Rothschild International and Dunhill recently announced the reconstruction of the tobacco and luxury goods businesses into two new quoted groups, and the return of £55 million surplus cash to Rothschild and Dunhill shareholders.

The tobacco group would retain the name Rothschild, and the new luxury goods group, called Vendome 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.

Despite the short-term outlook for Dunhill, the three groups said Vendome 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 Rothschild's markets, and the total volume of cigarette sales in many markets was static or in decline.

Rothschild's 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 Rothschild 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 Rothschild 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 Rothschild and Vendome units was expected to start on October 25, traders said.
Utico's earnings rise in tough consumer market

TOBACCO and snacks group Utico noted a 13.3% rise in earnings a share to 221c (196c) 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 7.5% to R25.9m from R24m previously.

With borrowings lower, the interest bill declined 40.5% 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 13.3% higher at R13.4m (R11.9m).

In line with this increase, the interim dividend was 12c (12c) a share. Interest cover improved to 19.6 (10.6) 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".
Although the Chinese yard goods market is a tough one, the company's innovations and strong market position in China are helping it to maintain its position in the field. The company's unique products, which are designed to cater to the needs of the Chinese market, have been well-received.

In addition to its core product line, the company has also expanded into new product categories, such as home decor and clothing, to further diversify its offerings and appeal to a wider range of customers.

The company's commitment to innovation and customer satisfaction has helped it to maintain a strong footing in the marketplace. The company's ongoing efforts to improve its product offerings and customer service are expected to continue to drive growth in the coming years.
Richemont staves off recession

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.

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 £243bn (£3,11bn), on which attributable profit before extraordinary items climbed to £206,6bn (£2517,3bn).

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

The new company, in which Rothmans will invest around £35bn, will build a cigarette factory in St Petersburg, Russia, offered one of the largest consumer markets in the world, Rupert said.

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 America's mail order retailer Hanover Direct and during the past year extended its interests in television company FilmNet SA.
The empire strikes back...

BRUCE CAMERON
Business Staff

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...

SUPREMO: Rembrandt’s Mr Johan Rupertstoned off any suggestions of a takeover.

Mr Rupert supported his father, saying the situation was incomparable with Gencom 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

By Ari Jacobson

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

Speaking to the press, Rupert said he would not concede control of the remuneration committee to the holding company and that remuneration was best left to shareholders.

The rebuff came as the group's chairman, Robert van der Merwe, recommended the unbundling of the group's control structure.

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"It seems as if the political solution in South Africa would be far easier to attain than an economic solution," Rupert said.

"In the case of South Africa, the political solution in South Africa would be far easier to attain than an economic solution," Rupert said.

As for Rembrandt, Rupert said that the group would continue to focus on international expansion and that the company was not part of the political solution.

He said that strategic positioning of existing tobacco and luxury businesses was not within his philosophy.

Regarding the potential opening of factories in China, Russia and Poland, Rembrandt was quick to mention that the Richemont group, which went overseas in 1953, had fared far better than its predecessor locally.

He mentioned that R1.5bn 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 by 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 the share purchase at that time, was now worth some R65 a share.

The Rembrandt group reported a 16% increase in earnings for the year to March at R2.1bn (180.3c) a share.

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Smoke, smoke, smoke that cigarette

Activities: Diversified industrial group
Control: Rupert and Hertzog families
Chairman: J P Rupert, MD, H Vasser
Capital structure: 522m ords Market capitalisation R13.7bn
Share markets: Price 2 6225c; 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 89 172 146
Debt/equity ratio 0.5 0.5 n/e n/e
Return on equity (%) 19.0 18.7 17.1 13.4
Net income (Rm) 901 841 1 174 1 239
Earnings (c) 1 144 166 180 182
Dividends (c) 26 30 32.6 32.6
Tangible NAV (c) 757 885 1 055 1 301
† 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 investment —- nothing too dramatic or heavy-handed at this stage, but certainly a keener interest.

Rupert has chosen to concentrate on offshore interests first, restructuring Richmont’s Rothman’s 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 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

Chas & Hepburn CE Neil Morris stepped in. One result was new Remgro MD Rick Griffiths (People July 16). Rupert says this was Hunter’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 5% 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, managing 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 divdend 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 space.

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<thead>
<tr>
<th>Source</th>
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<td>581,8</td>
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<td>109,4</td>
<td>89,2</td>
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<tr>
<td><strong>Total</strong></td>
<td>5 507,2</td>
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<td>941,1</td>
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Smoke, smoke, smoke that cigarette

**REMBOURTS GROUP**

**Activites** Diversified industrial group
**Control** Rupert and Hertzog families
**Chairman** J P Rupert; MD H Voss

**Capital structure**: $22m ords Market capitalisation R13.7bn

Share market Price 2.625c Yields 1.4% on dividend, 6.9% on earnings, e/p ratio 14.4, cover 5, 12-month high 2.800c, low 2.275c

Trading volume last quarter, 5.5m shares

**Year to March 31**

<table>
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<th>90</th>
<th>91</th>
<th>92</th>
<th>93</th>
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<td>ST debt (Rm)</td>
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<td>Return on equity (%)</td>
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<td>Net income (Rm)</td>
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<tr>
<td>Earnings (c)</td>
<td>144</td>
<td>166</td>
<td>180</td>
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<tr>
<td>Dividends (c)</td>
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<td>30</td>
<td>32.6</td>
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<tr>
<td>Tangible NAV (c)</td>
<td>757</td>
<td>889</td>
<td>1,056</td>
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</tbody>
</table>

† Excludes special dividend of 30c

**Rupert’s smoking gun**

**Rembrandt’s Rupert**

*Little chance of a cigarette war here*

 Held a few points below inflation*

**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 share & Hepburn CE Neil Morris stepped in one result was new Rainbow MD Rick Griffiths (People July 16) Rupert says that was Hunter’s decision, but one suspects the unseen hand of Remgro*

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<td>581.8</td>
</tr>
<tr>
<td>Total</td>
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</tr>
</tbody>
</table>

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**Rembrandt Group**

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**CHARTER**

**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

Activities: Principally in tobacco and luxury goods.
Control: Rupert and Hertzog families.
Chairman: N. Smit, 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.
ST debt (Rm) 141 297 468 528
LT debt (Rm) 822 753 778 778
Debt equity ratio n/a n/a n/a n/a
Turnover (Rm) 2 862 2 999 3 108 3 431
Pre-nt profit (Rm) 531 556 584 603
Pre-nt margin (%) 17.9 18.3 18.7 17.6
Earnings (E/unit) 254.7 308.7 334.3 358.8
Dividends (E/unit) 41.25 50.63 56.91 5.89

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

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 room 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 held 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 fell 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 timely tactical move into developing markets. Rothmans International will spend about £25m in a joint venture with Neko 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 Richemont...
proven, 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.

MARILOU GREGG

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 scrapping of the company’s earlier interest on cash dividends — unchanged at 6p a share. Most of TAH’s big shareholders (Liberty 54.1%, Union des Assurances de Paris 17.1%, and Genoaro 3.8%) 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 leap 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 £17.5m 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 (30% owned with UAP) and Capital & Counties. But chairman Donald Gordon says property investment income was 9% better at £36m, even after £2m in bad debts and losses caused by depressed retail sales — though these did 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 £230m 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 biggest growth 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.

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 average 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 R19.2m, less than the budgeted R15.6m 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.

MARILOU GREGG

CONTROL INSTRUMENTS

Rapid raters

In November, Control Instruments (CIT)’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 due in 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 5%.

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 on the year before, and trimmed interest payable by 45%, to R1.7m.

With some R29m assessed losses, CI paid only R2.5m 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 5c. 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 Shurlock 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 Shurlock will add another 1.5c to 2c EPS.

On a p/e of 15.4 and premium of nearly 100% to NAV (before the Shurlock 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 RANDALL

FINANCIAL MAIL • AUGUST 20 • 1993 • 83
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.

Analysis 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.
Media move holds back Richemont

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 £97.9m 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% to £16.9m and a lower effective tax rate.

Richemont bought FilmNet, the largest North European pay television 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 owned in the Vendome company, which increased operating profits by about 24% to £263m.

Tobacco profits as reflected in Rothmans international increased by 12.3% to £122bn, 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 pickup truck at the East London plant.

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.
Media interest costs trimmed
Richemont bottom line

MARC HASENFUSS
Business Staff

THE Rupert family controlled Richemont Group, which recently re-shaped its tobacco and luxury goods operation into two separate companies, reported a slender 2 percent increase in attributable profit to £27 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 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 £224 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 £99 million.

Directors said operating losses in non-core activities increased by £2 million to £2.7 million mainly on the back of higher losses incurred 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 65.7 percent interest in Vendome Luxury Group.
■ A 50 percent interest in Network Holdings SA (which holds 50 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

MARCIA KLEIN

SUBDEED 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 perform.

Richemont is to restructure its tobacco and luxury goods interests into two new quoted groups — Rothmans and Vandome.

Rothmans would hold the tobacco interests, and luxury goods group Vandome would include Cartier and Dunhill.

It was unclear if the two entities would report interim results separately.

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 lower 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 its losses had grown to R22.5m (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 R206.6m.

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

LION Match has increased six-month 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 R805m 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 49% of trading profit.

Lion's turnover rose 7% to R148m (R138,5m). Trading profit increased 15% to R19,2m (R17,1m). Directors said that reflected the benefits of improved productivity and reduced overheads.

Lower finance costs of R3,7m (R4,2m) and a lower corporate tax rate saw profit after tax rise 33% to R19,2m (R14,4m).

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.

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 R19,5m (R19,2m) 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 dividend comments were given. However, in its announcement of the disposal of Interpak. Lion said that in the six-month period, Interpak contributed 33% 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 45c a share.

An analyst said it made sense that the share was moving upwards yesterday. It added to previous gains, closing 5c up at 55c.
Anti-smoking body slams tobacco industry

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 Yusuf 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 rung 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.

"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**

**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.

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's 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.
Rembrandt issues ‘birthday’ dividends

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%.

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 per 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.

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

By Tsale Makam

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

Mngqengi 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 Hanu, to incriminate and names of places they were supposed to have robbed.

Judge says ANC man is an unreliable witness:

Mr Justice R Shydom also said although most of the policemen were unreliable witnesses, Mngqengi 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 Mngqengi 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 Mngqengi's confession to the robbery.

(Proceeding)

Bill provokes huge row

By Musa Zondi

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.
Police probe ANC leader after ‘kill the boer’ chant

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 Wit 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 that 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.”

President Roy Anderson.

Medical Council welcomes Bill

LLOYD COUTTS

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.

The council had calculated that a R1 rise in the price of a packet of cigarettes would bring in R7bn 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.

East Rand violence claims nine more lives

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 Hospita for treatment.

Police said they didn’t know the motive behind the shootings.

Police also reported a shooting in Katerikong, 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 man’s house 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 a stolen car were seized.

While 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 Bopatong woman, aged about 23, was killed when gunmen armed with hand weapons opened fire on patrons in a tavern on Baltong 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 Mngeni Edward Shange was found near the railway line between Zwelethu and Reimont 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.
Tobacco summit ends on tense note

HARARE — Zimbabwean tobacco growers and international anti-smoking lobbyists departed, fuming, from 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 organizer Derek Yach, from SA 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 Tobacco 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 onickle and handouts.

However, World Bank senior economist Howard Barum, 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 R2.1bn for the UK economy in exports to Africa.

Zimbabwe 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 that tobacco must be seen against the background of world consumption of all forms of drugs and narcotics, mostly of which were illegal, such as marijuana, cocaine and heroin, or had far more grave health and social consequences, such as alcohol. Nicotine was no 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 acclamation 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

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. EJ

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 to 2.5%.

Canadian tax expert David Swenon said SA's tobacco tax of 50% was the world's lowest. Most were in the 84%-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 Swenon. (208)

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’

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.

Tobacco accounted for 60% of Malawi’s export earnings and 26% 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

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 Sweeney 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, Sweeney added.

The US, which also taxed only 30%, was in the process of tripling the tax as part of its health care system restructuring.

Sweeney 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.

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. Reuters reports

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.

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 Numa 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

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 16 million deaths a year by 2030.

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.

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

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 Derek 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.

House dust fatal for asthma suffers

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 contraceptives, drugs, vaccines or devices.

One expert says it is about time Dr Carl Djerassi, who developed the active ingredients of the birth control pill, takes another look.
Rembrandt exceeds market expectations

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 (97,2c) a share and the interim dividend, declared in August together with a special dividend of 14,53c a share, was raised 23c to 17,04c (14,52c) a share.

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 R332,5m (R494,5m). After an increase in dividend income and a lower interest bill, net pre-tax income was 10% higher at R442,7m (R388m).

Net taxed income was 15% higher at R430,7m (R376m).

Capital commitments at end-September amounted to R588,3m 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 Lensco 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 (84,6c) a share. An interim dividend of 12,63c (10,51c) a share was declared with a special dividend of 19,75c a share.
Rembrandt Group beats market's expectations

MARC HASENFUSS
Business Staff

THE Rembrandt Group beat market expectations to post a solid 17 percent increase in earnings in the half year ending 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 R2,32 billion in the period under review.

Rembrandt's operating income came in 7.7 percent higher at R32,5 million. This was supplemented by a 10 percent increase in dividend income to R145 million - pushing net income before interest up 8 percent to R66 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 Vodacon. The group's investment for the current financial year will be about R41 million.

The group also invested another R28,3 million in the Lenico 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
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 R530,3 million for the six months to September.

Operating income rose 8 percent to R925,5 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 R72,2c 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 15,52c.

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 the first six months.

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 9,6c.

The results of Technical and Industrial Investments (TIB), which has an effective stake of 17,4 percent 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.

— Saga.
Media development costs trim Richemont's profits

BY MARC HASENFUSS

The Rupert family controlled Richemont Group, which recently repositioned its tobacco and luxury goods operation into two separate companies, reported a slender two percent increase in attributable profit to £37 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 53 percent held by Richemont.

Luxury arm Vendome showed an exchange rate driven 15 percent jump in sales revenue of £224 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 £30 million.

Directors said operating losses in non core activities increased by £8 million to £8.7 million mainly on the back of higher losses incurred by Film-Net 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

MARCIA KLEIN

RICHEMONT has reported a pedestrian 2.3% rise in attributable profit to $66.6m ($24.5m) 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 offshoot created by 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 85.7% of the Vendome luxury goods group.

The interim results reflect Richemont’s interests in the adjusted results of its 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 13.3% to £1.7bn (£1.5bn) and operating profit was 9.8% higher at £251m (£229m).

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 £234.4m. While tobacco’s operating profit grew 8.5% to £212.8m, that in luxury goods rose 23.9% to £290.1m. An operating loss (1989) of $12m widened to $21m.

Richemont expects 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 $28m.

It 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%

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 (14.26c) a share and there is a special dividend of 14.52c.

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 (94.6c). It declared an interim dividend of 12.61c (10.51c) and a special dividend of 10.73c.

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 (56.7c).

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 (80c). The interim dividend is 11.73c (9.77c) and the special dividend is 10c a share.

Tax

Operating income rose by 8% to R52.5m (45.6m) and dividend income to R13.2m (R12.2m). The interest bill fell to R21.1m (R20.5m).

Because of the lower company tax rate, the tax bill rose only to R21.1m (R20.5m), 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 R64.2m (R58.8m) and by 14.5% after tax to R43.0m (R37.6m).

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.
Tobacco tax hike could affect industry

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. 2/3/92

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. 2/3/92

According to industry sources, SA's tax was in line with Zimbabwe (34.4%) and Malawi (36.8%), and below that of Kenya (57.3%) 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 39%.

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 1992/93.

Consumer spending on tobacco products totalled just under R1bn in 1992/93, compared with R4,96bn in the previous year.
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 Jope 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.

Until this happened, the industry needed good planning, co-operation and "probably also a good deal of sacrifice." 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.

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

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 R49.15 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 297m (255m) 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.

Richemont’s performance in the calendar year 1993 was knocked by the depth of recession across Europe, and development costs incurred by its media interests — European pay TV channel Filmet and a US direct retail outlet — 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 performance in the interim period.

Analysts say Vendome’s outlook is particularly good, having become a vertically integrated procure 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 Filmet promises rapid earnings growth once it has broken even.
COMPANIES

Utico-UK parent deal possible

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 that the negotiations included Utico's UK holding company BAT Industries.

There was a chance that industrial conglomerate BAT could be increasing its 53% stake in Utico by buying out minorities through a fanmail 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 divest.

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 50c or 3%, to close at R2.60 on news of the cautionary announcement.

The share traded at a high of R1.60 earlier in the month, and a low of R1.50 in January last year.
Remgro divs jump 20 percent

Business Editor
CASH-RICH Rembrandt Group
continued its trend of improved
rewards for shareholders in its
50th birthday trading year.
The group, which traditionally
decares dividends before
annual results, is expected to
end the year strongly after its
interim report for the half year
ended September showed a sol-
dent 17 percent increase in
earnings.

Remgro and its pyramid
companies, which normally
have a conservative dividend
policy, have increased divi-
dends by 20 percent for the
year.

Remgro has paid a final divi-
dend 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 (36,28c).
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 divi-
dend of 12,61c paid during Oc-
tober this gives a total of 32,16c
a share for the current finan-
cial year (26,86c). During Octo-
ber a special dividend of 10,75c
a share was paid.

Technical and Industrial In-
vestments paid a final dividend
of 18,19c (1993 15,86c). 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 Stellen-
boch Farmers' Winery Group
Limited yesterday declared an
interim dividend of 3,5c an or-
dinary share.
Bullish Remgro raises final payout by 22%

By ARI JACOBSON

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.

Rembrandt 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 doubt that Remgro have done well and this should boost the positive sentiment on the market," said an analyst yesterday.

Remgro is about the eighth 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 stockbrokers 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 strength was underpinned by an investment portfolio representing 83% of its share price.

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

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 18 percent to R$96.85 million (financial 1992: R$81.5 million).

Turnover was up by 5.8 percent to R$506.9 million (R$473.5 million) and operating profits rose by a modest 6.4 percent to R$68.2 million (R$64.1 million).

However, interest payments were sharply lower, falling from R$9.86 million to R$5.3 million and boosting pre-tax income by 13.2 percent to R$65.9 million (R$58.2 million).

Earnings per share improved 16 percent to 698c (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

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 Wills snacks, increased its turnover 5.8% to R550.2m (R573.2m). 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 R65.3m (R58.2m). A marginally lower tax rate resulted in the 16% increase in attributable earnings to R77m (R31.8m).

A final proposed dividend of 238c a share would bring the full year dividend up 15.2% to 385c (314c) a share. Interest cover grew to a high 29.6 (10.9) times, and gearing was reduced to just 2.3% (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.

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 83% 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 1994.
SA's tobacco lobby takes a leaf from Mohawk book.

By TERRY BETTY

Mohawks' smuggling of 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.

"Mr. Groenewald says the Mohawk smugglers have destroyed Canada's formal cigarette business and the same could happen here."

The ANC has 'informed it may raise cigarette taxes and it has been estimated that a $1 an pack increase would net R4 billion a year."

SA's tobacco tax of about 35% is close to that of neighbouring states, but lower than the 60% to 90% of First World countries."

The Tobacco Board says spending on tobacco products rose to nearly R8 billion in 1992-93, from R4.5 billion the previous year.

Because of the cost difference between Canada and US, contraband cigarettes account for 90% of the Quebec market."

The "Warior Society" says claims to Indian reservations 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 R7.5 billion in turnover and policing the border has cost a fortune."

Pro-cigarettes lobbyists say the tax has increased the number of smokers because contraband packages are cheaper."

"The Canadian government has subsequently slashed its tobacco taxes, almost halving the official cost of cigarettes."
Rembrandt ‘to hold licence on Marlboro’

1971

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, Utica.

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 (DBMB), 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 DMB & B Inc and DMB & B (SA) was reviewed last year.

Unlike DMB & 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.

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 1995.

But traders put yesterday’s moderate gains down to technical buying after the price plunge on Wednesday rather than to improving demand — Sapa-Reuters
Utico set to sell Willards division

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 R2.5bn.

It was believed that all the major food groups, excluding Foodcorp which already owns Simba, had shown an interest and would tender.

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, Cheddarrack, 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 cautious announcement by Utico in January.

At that time, analysts believed that because Standard Bank London was included in the cautious announcement, 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 60c a share off a 5.8% rise in turnover to R606m. Utico did not comment separately on the performance of tobacco and snacks.
Utico reports severe pressure on total sales

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, Williams, Flana- gan'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 Williams 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.

Despite these factors, Williams 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 announce 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 Williams 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 181394

Still in suspense

Activities: Makes and markets cigarettes, tobacco and snack foods
Controls: BAT Industries Plc 63.6%
Chairmen: F N Haslett, MD D B Edmunds
Capital structure: 6.1m ords Market capitalisation £16m
Share market: Price 1010c Yield 3.6%
on dividend 6.0% on earnings, p/e ratio 16.6,
cover, 1.67 12-month high, 10200c, low,
8800c Trading volume last quarter, 74,000
shares

Year to Dec 31

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After riding the wave of good fortune for much of the recession, tobacco and snacks group Utco was hard pressed to lift 1993's turnover 5.8% to £606.9m (P)

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 £36.9m. The interest bill fell almost two thirds, to £2.3m, and the effective tax rate was 43.9% (45.3%)

The 20% jump in creditors to £104m 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 £24.5m but commitments this year are substantially lower. Borrowings were cut from £22.5m in 1992 to £3.4m. Interest cover increased from 10.9 times to 29.6.

Though Utco'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 cautious notes issued by Utco at the end of January. In particular, two possibilities are cited first that Utco is considering selling its Williams snack division, and second, that UK parent BAT Industries (with a 63% stake) wants to buy out minorities.

While Williams' market has been affected by unrest, violence and weak consumer spending, financial director Seville Chinn 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.
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, Atlantic Forming, it attempted counter litigation that was settled out of court this week.

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 Atlantic 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 Muzam Primmu Wilson Cohen & Goldberg who instructed advocates D Trush SC and P Wayne. Atlantic Forming was represented by Murluck, Riedman & Coleman who instructed advocates C Punrun SC and A Goldblum.
WILLARDS/NATIONAL BRANDS

Overspiced meal?

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.

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 special dividend equating 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. (18)

Mary Lou Craig
Rothmans shelves Asian merger plan

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.
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, Kama Chetty, said details had not been worked out, but the price of cigarettes could double.

The recommendation on tobacco tax was presented as part of the national health plan sent to Health Minister Nkosazana Dlamini-Zuma earlier yesterday.

South Africa grows much of its own tobacco.

Current prices are relatively low, Sapa-Reuters.
Higher cigarette, liquor taxes ‘will mean less revenue’

EDWARD WEST and MARCIA KLEIN

PROPOSED increases in taxes on liquor and cigarettes would not necessarily increase government revenue but could seriously harm employment, industry sources said yesterday.

News of the ANC’s health plans, released on Wednesday, saw Rembrandt Controlling Investments drop 26% or 65c a share to close at R1.17 on the JSE yesterday. Subsidiary Remgro lost 5.5% or 175c to close at R3.00 and KWV lost 2.6% or 2.5c to 35c. But tobacco group Utico’s share held steady at R1.35, while those of SA Breweries (SAB) rose marginally to R5.90.

The plans included the possibility of lifting taxes on these products by as much as 70%.

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, 79% in the UK and 73% in Germany.

The KKW 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

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.

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 Groeneveld said a similar experience in tobacco control in Canada had failed because smokers had resorted to contraband cigarettes.

NCAS executive director Dr Yussuf Saloojee said South Africa's tobacco tax of 38 percent was small compared with Denmark's 85 percent and the UK's 76 percent. Current government income from tobacco taxes was R1 502 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 drunk 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 1 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."
South Africa's tobacco industry is expected to lose thousands of jobs due to a proposed increase in tobacco tax. 

The government has proposed a 40% increase in tobacco tax, which would result in a significant drop in sales and production. This is expected to have a domino effect on the entire supply chain, affecting farmers, processors, and retailers.

The tax hike is seen as a major burden on the industry, which already operates at a loss. Many companies are expected to struggle to meet the new tax rates, leading to a potential decline in exports and revenues.

The tobacco industry is a major contributor to South Africa's economy, providing employment to thousands of people. The proposed tax increase will have a devastating impact on the industry and its workers.

Source: Western Cape Premier

Westminster, Cape
**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 Vilhers, 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 Vilhers 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 Panke 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.

"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 advisors.

In the longer term, a rise in taxes on cigarettes would reduce Treasury revenue. De Kock added — Sapa.
Bad news for smokers, drinkers in Budget

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.

Louv 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.

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

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.

KATHRYN STRACHAN

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 R15m for all issues of health education.

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.

Tougher tobacco warnings

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 X228, 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.
TOUGH NEW RULES ON TOBACCO ADVERTISING

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.

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 Joplie 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 trade marks 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.
TOUGH NEW RULES ON TOBACCO ADVERTISING

A former tobacco executive who also served as a government official has called for a serious examination of the use of tobacco advertising in the United States. The new rules would require manufacturers to advertise their products on television, radio, and in print media, and to include explicit health warnings on all tobacco products.

The new rules would go into effect immediately, and would require manufacturers to spend at least 20% of their advertising budget on health warnings. The new regulations would also require manufacturers to provide more information about the health risks of smoking, and to make it easier for smokers to quit.

The government has also announced a new initiative to educate the public about the dangers of smoking. This initiative will include a series of public service announcements, and will be promoted through social media and other channels.
Tobacco industry rejects draft laws

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.

Jöppe 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 "health risk". The new warnings will take up at least a quarter of the space on the front of packets, and half the back.

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? Breast-feeding? 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

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 warnings displayed 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 Unco 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.

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

MARCIA KLEIN

A 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 1996, 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 R44,8m 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.

Van der Watt said Lion would focus on exports, tighter cash 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 its lost market share with its French-sourced brands lunging out to the Far East. The French range has been discontinued, and replaced with competitive products from Germany.

Weikum 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.

Turner said although packaging division Interpak, which was disposed of in November for R203,8m, 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 R165,1m 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 1996. Nevertheless, development of local and export markets would see Lion increase earnings and cash flow from operations.
Budget nerves force Remgro shares down

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 has continued the trend of the past few months and lost 76c or 2.6% to close yesterday at R2.72, was harsh in the light of Remgro's earnings prospects. The share was trading at a high of R2.785 in January.

Tobacco volumes were down on the previous year, but Remgro was expected to benefit from lower taxation in the core trades (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 29% to 42.4c, 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.

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.
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, Joppe 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

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 129.5c to 167.5c per share.

Net income before tax increased by 6.4 percent from R1252.8 million to R1330.4 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 R406.8 million.

Net tax paid 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 43.4c per share and are covered 4.8 times (1993 5 times) by total earnings and 3.8 times (1993 3.5 times) by cash earnings.

A special dividend of 14.1c per share was paid in October 1993.

Rembrandt Controlling Investments reported net earnings of R585.6 million (1993 R493.5 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 R152.8 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 11.75c, makes 30.94c for the year. A special dividend of 10c is being paid — Sapa.
Remgro below expectations

Pre-tax income was 8,4% higher at R1,33bn (R1,25bn), but earnings were boosted by the lower tax rate and secondary tax on companies — which lowered tax to R408,6m (R478,1m). Taxi profit was 10,8% up at R594,6m (R774,7m).

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 increased amounted to 10,3%. Analysts had estimated the increase to be close to 20%, in line with the dividend payout.

An extraordinary cost of R15,5m 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 6.5%, Sappi 5.1% and Malibec 7%. These interests were not equity accounted.

If these, as well as W&A Gilbeys — which was no longer classified as an associate — were equity accounted for the full financial year, earnings would have risen to R65,46 (200,9c) a share, the group said.

Earnings for Rembrandt Controlling Investments, which has a 51,1% stake in Remgro, were 148,6c (134,9c) earnings excluding the share of income retained by associates came to 123,3c (103,3c).

Technical & Industrial Investments, which had an effective 17,4% stake in Remgro, produced earnings from normal business operations of R108,6m (125,5c).
Tobacco Advertising

Consider Yourself Warned

Could government end up stopping tobacco advertising without having to ban it? Tobacco Institute of Southern Africa chairman Joppe Graham believes so. He says 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 (1-8).

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

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.

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 — stripes a match!

Chairman Laure 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 on 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 Interpack packaging division and Allied Packaging and Allied Appliance.

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.
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 26 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.

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 expeditious 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 disposal, we are not in a position at this stage to comment on the possible impact on the industry."

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 opportunity 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.

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 Framex 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 1.46, though, would suggest there is value. But that entails taking a view on the future of the industry which could be entering an especially uncertain phase.

Shawn Harris
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-hatted tobacco industry dashed 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 disincentives against an established, legitimate industry and its customers.

He said the additional burden of 14c for a pack of 20 cigarettes came at a time when many people were unemployed, and tobacco producers themselves might employ-
Extra excise on tobacco, liquor to yield R350m

“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 a 14% VAT to be added, will make a noticeable difference in the price of alcohol and tobacco products. They will hit the exchequer R350m in a full year.

Daily on beer has increased 6c/1 or about be a 546ml can of “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 4.1c/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 targets only tobacco and liquor as generators of indirect revenue.

Tobacco Institute of Southern Africa chairman Jopiie 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%.

KVV said the wine industry was surprised by government’s “uncompassionate attitude” towards rural communities of the Western Cape and the 300 000 people who live and work on wine farms.

KVV said a 6c/l increase on natural wines represented a 25% 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.

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 R6c 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 Yusuf Saloojee said the Finance Ministry had been pressured into backing down from making significant increases in tobacco taxes.

Government had been influenced by the tobacco industry into believing tobacco tax increases were unacceptable because of vague and unspecified potential losses of jobs in tobacco farming.

The Medical Association of South Africa 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 Vusser said yesterday.

Responding to Wednesday's Budget, Vusser 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.

Medical Association of SA (Masla) chairman Dr. Bernard Mandell said yesterday it was apparent that the powerful tobacco lobby had unduly influenced Keys to announce the lower increases.

Mandell said that it was disturbing that the health of the population could be influenced by such powerful lobbying.

"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 (Utco) 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 "monopoly" price-fixing".

"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 Dave Prins said the price had increased by only 3.3%, well below inflation estimates and just over half of last year's 7% increase.

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 3.3% increase had resulted in higher excise, VAT and margins to the wholesaler and retailer, ultimately raising the price paid by the consumer.

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".

Utco 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

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.

Analysts expected earnings — excluding extraordinary items relating to the restructurings 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 3.1p (£1.4m) on marginally lower sales of £1,042m (£1,068m). 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.

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 R38, near its December low of R38 and well off its June 1993 high of R47.50.
Grow different crops, tobacco farmers urged

CLIVE SAUER
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 excise 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.

South Africans spend R5 billion a year on tobacco products. The rise in excise duty is expected to net an extra R250 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 and addiction.

Tobacco Board chief Jan Graham said there were 801 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

Business Staff

SWISS-based Richemont Securities AG reported a 3 percent dip in attributable profit to £288 million (R1.2 billion) for the year ended March.

The group will pay a dividend of 56.15 a unit to holders — 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 £30.5 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 £297 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 (R468 million).
Uphill going

for Richemont

BY DEREK TOMMEE

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 (6.4 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 taxes 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 factory 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.

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 losses of Network Holdings increasing from £7.3 million to £25.7 million.
Restructuring costs
Richemont dearly

TOBACCO and luxury goods group
Richemont reported a 45% slump
in attributable profit to £115m
(£220.3m) for the year to March on
the back of a one-off £87.1m re-
structuring cost and a fall in in-
vestment 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 £352.1m, the directors
said at the weekend.

Unadjusted earnings per unit
plunged 45% to £20.03 (£32.93) but
excluding exceptional items earnings
fell 2.9% to £35.20m (£53.56m)

The average year-on-year exchange
rates had a favourable impact on re-
sults from overseas companies,
increasing pre-tax profit by £42m and
attributable profits by £14m.

"Operating income for the year rose
12.6% to £605.1m (£575.1m) following
higher profits from the tobacco and
luxury goods divisions. But this was
offset partly by the losses from deve-
lopment of 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 66.6% of Rothmans and 63.7% of
the Vendome luxury goods group.

Net investment income slipped
3.4% 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 sharehold-
ers 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 0.8% tax increase to
£222.4m.

Payments to minority interests, ac-
cording to unadjusted figures, fell
8.5% to £187.4m (£204.7m)

But when excluding restructuring
costs, minority net income rose
15% to £255.8m.

The directors proposed a 4.5% in-
crease in the dividend to 56.15.

Despite a worldwide 8% fall in ciga-
rette sales, net sales revenue from the
group's tobacco interests rose £72.5m
or 3% to £2.3bn on favourable ex-
change rates. This translated into a
3% rise in operating profit to £542.3m
(£240.5m).

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 £191.8m (£164.3m).

The group's share of NAR Group's
operating profit increased 6.2% to
£11m. Losses of £23.7m (£27.2m) were
incurred through the group's media
arm Network Holdings SA as a result
of investments made to improve the
range of the FilmVnet service.

The group announced that it had
acquired a 25% interest in Italian pay
television operator Telepiu through
the purchase of the entire share cap-
it of Compagnie Internationale de
Telecommunications for £180m.

The group said the deal would com-
plement its investments in the Euro-
pean pay-TV industry.
Is this industry worth protecting?

Heath Writer DAVID ROBBINS examines some of the issues.

Budget spared immediate controversy. Was it too much or too little?

He increased excess duty on tobacco products announced in the
Shopkeepers charge more

Smokers huff and puff over increases

BY ZINGISA MIKUMA
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 23 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 shop 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 R4,90.

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.

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 recommended prices because we do not have standard pricing laws," he said.
Tobacco, liquor bolster Remgro bottom line

MARC HASENFUSS
Business Staff

TOBACCO and liquor contributed a whopping R58 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 R45 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 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 results 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 R75.5 million to bottom line, down 3.3 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 stake 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 cellular 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

MARC HASENFUSS
Business Staff

TOBACCO and liquor contributed a whopping R533 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.

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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 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 terrible 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 damper on results. Total worldwide cigarette volumes were down by 0% - once again, favourable exchange rates came to the rescue, growing net sales 3% to £2.3bn (see table).

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 up 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 now well represented. Traditionally, 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.

SLOW SALES, SLODER PROFITS

<table>
<thead>
<tr>
<th></th>
<th>Net sales revenue</th>
<th>Operating profit</th>
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<tr>
<td></td>
<td>1993 (£m)</td>
<td>1994 (£m)</td>
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<tr>
<td>Tobacco</td>
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<td>Luxury goods</td>
<td>1,090.8</td>
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<tr>
<td>Other</td>
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<td>3,665.1</td>
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<tr>
<td>Share of associated undertakings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
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</table>

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 33p. Analysts don’t expect it to go lower, though a superficial reading of latest results could result in further declines. Apart from the strong hedging 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.

CHARTER

Courageous buy

De' you have the courage to put R1.8bn 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.

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.

Rupert said that the $100m. 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." 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.
Glum days in Marico for Van

Cathrin Hennicke
and Claus Stokke

W

EASTERN Transvaal tobacco grower Van der Merwe doesn't smile much. The yellow, sweetish-smelling leaves which his livelihood depends on, are being shredded, 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.

Much of his recent income will be used to buy farm equipment and he won't be able to sell it. In front of the stoves which he uses for drying the leaves lies a huge pile of uneatable 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 retrain 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 R15 000 a month in 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 Skinzidrift for the past three years. In 1991, hallstroms struck three times. The Next, 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 400-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 156 000kg, of which he could sell only three-quarters, and only half at face price. Some of the balance he sold for 10c a kilogram. He lost R200 000 and had to retrain 36 staff members.

The 40-year-old father of three has now reduced his growing area from 250ha to 75ha. As the old co-hoedum is still only 18 percent full, offering too little to the 25 tobacco farmers who continue to farm under water is also dwindling.

Between Skinzidrift and farmers and farm managers have already given up, taking jobs to raise the money to pay their unemployed wages. One now works as a pipelitter 800km away. To save money, he visits his wife and their 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 confiscated 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, they are so disciplined — they would die for the farm."
Rembrandt's tobacco prospects 'uncertain'

PROSPECTS for the Rembrandt Group's (Remgro's) mainstream 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.

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 31.5% or R87.9m (R632.7m) to total earnings for the year to March.

Remgro reported attributable earnings a share 10.3% higher at 200.9c (181.4c). 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 (26.96c).

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 Glencore's unbundling.

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 R9.5m for the six months to March (R22.7m).

Earnings contributions from the financial services division had fallen 3.4% to R76.6m and represented 7.2% of the group's earnings as the socio-political climate put a dampener on confidence.
LION MATCH

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 surged from R15.4m in 1991 to this year's R203m. 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 Angloviall 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 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.

Lion's trading profit for the year was R6m or 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 Tedex and which was established in January 1992. Amalgamated manufactures household appliances and brand names include Pinea, Haze and Sultin.

The deal was done for "no consideration" — a polite way of saying Amalgamated was handed back to Tedex 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 are ready," says chairman Laurens van der Watt, who 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 Cleason
Remgro chief warns on excise hike

BRUCE CAMERON
Business Editor

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 R1.69 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

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 85c 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.

Clear beer had been weighted unfairly and contributed the most to government's excise purse.

SA Liquor Stores Association chairman Chris Mthongo 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".

Liquor 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

TOBACCO and cigarette company United Tobacco Holdings (Utico) reported a 2.9% fall in earnings to R12m for the six months to June, following falling demand and poor trading conditions.

Earnings a share fell by 2.7% to 21c and the interim dividend to 12c (13c).

Turnover rose 0.3% to R550m. 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 R189.6m.

Operating income slumped by 16.6% to R21.6m, again heavily influenced by Willards' operating income slipping by 21.6% to R3.6m. United Tobacco's operating income fell by 12.3% to R17.7m. Pre-tax income remained static at R24.6m but tax increased 3.6% to R11.8m to leave attributable income 2.9% lower.

The Willards sale netted R38.5m.

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’s tobacco industry provides work for 5,000

By FRED ROFFEY

The tobacco industry in the Western Cape employs 4,333 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.

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.

For example, the PWV has no tobacco producers but 20,000 spaza, 13,794 retailers and 61 wholesalers selling tobacco products, while in the Northern Cape, 2,257 retailers and 26 wholesalers are involved, compared with 5,763 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%, Riembrandt, which controlled about 60% of the local market, might be forced to close down one of its factories.

According to the Tobacco Institute, about 550 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 Uacco which was considering a restructuring after the sale of Willards.

Uacco MD Stuart, Sutherland said the main impact of the regulations would be to distort the market and hamper the launch of new products.

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.
LEADING ARTICLES

TOBACCO ADVERTISING

Putting out fires

Proposed health regulations have sounded economic alarm bells

Advertising hoardings sprouting in Johannesburg in the past week testify to growing concern about 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 up — 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 compulsion. 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 Sauer said, “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 1993 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 Joppe Graham, chairman of the Tobacco Institute, the industry body. “The medical world has identified about five 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 diseases and 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.

But, says Saloojee, “we can’t expect South Africans to pay with their lives and only get 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 it 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 a 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 D 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-
Leading Articles

Media Dependence

Tobacco Advertising
12 Months to March, 1994

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<th>Product</th>
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continued from page 20

can Reekie argues that the net economic benefits from smoking exceed the claimed health costs by R2.9bn.

The health lobby’s calculations, Reekie charges, are “a consciously 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 assaulted by second-hand smoke.

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?”

Fines, 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. Today South Africans are addicted. Freedom only works if you have full information.

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.

One thing is clear. This is not a subject to be approached carelessly. The political correctness with 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

Own Correspondent

JOHANNESBURG — Tobacco and luxury goods group Richemont, which acquired a 25% stake in Italian-based pay TV operator Telepiù in July, has dismissed claims that corruption scandals rocking the government of Italian Prime Minister Silvio Berlusconi are threatening the group’s investment.

Richemont acquired the stake from Berlusconi’s Fininvest for $1.3bn 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 Telepiù 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 Telepiù, 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

BRENNLE PAYNE

SA BREWERIES' matches and consumer goods subsidiary Lion Match increased earnings 63% to 26,98c 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 of deposit of R196.2m 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 R167.7m. But total sales for the period were down at R167.7m 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 R13.5m, but as total trading profit was down from R19.2m in the comparable period, interest earned rose to R7.4m (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 R2.5m during the same period last year.

Attributable earnings rose 63% to R11.8m, which translated into earnings of 26.98c 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 R16.2m from R38.1m last year.

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" rate in earnings for the full year.

The group lifted earnings 35% to 44.8c a shares for the year to March.

Its shares closed unchanged at 760c on the JSE yesterday, with sellers at 720c. 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

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 65 percent to 25,96c a share in the six months to September, compared with the previous year.

Turnover from continuing operations — excluding Interpak Holdings, sold in 1983 — 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 1983’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 65 percent higher at R11.8 million (R7 million previously). An interim dividend of 8c (6.15c) is being paid.

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.
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 18%-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 Dlamini-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 Dlamini-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 18, but this was not being enforced.

CT 29.11.19(38)
Rothmans may boost Richemont earnings

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 £253.7m 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 R8.3.

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.

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 6%-8%.

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 £1,78c 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.

Corné 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 80% 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 revenue.

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 local 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 1980s and 1987.

“Excise duties on tobacco products have dwindled from more than R100m in the early 1970s to less than R750m 20 years later. As a percentage of government revenue the decrease is even more pronounced,”

During the 1970s and the early 1980s 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 1970s, 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 1984/1985 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 highlighted by the fact that in 1961 — only 13 years ago — excise duties comprised more than 40% of the retail price of tobacco,” he said.
Unions blamed for hospital conditions

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

TOM HOOD

REMBRANDT Group's earnings dropped R23 million or 4.3 percent 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 R13 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 259 679 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 R5.3 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 Methbuild planning to open a further six stores in 1996, 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 Ari van der Zwan said Southern would receive a meaningful stake in the enlarged Medi-Clinic hospital group in exchange for its Medicor holdings.

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.
Rembrandt earnings slide 4.3%

By ARI JACOBSON

THE Rembrandt group’s attributable earnings, from normal business operations, declined by 4.3% to R97c,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 R481m (R418m).

Earnings increased by 2.4% to 81c (78.1c) 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, Malbank 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 R22.5m or 67.5% 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 11.9% to R2,408bn (R2,238bn).

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 R63.1m compared with the R320.7m for the previous period last year.

In October the group increased its stake in Huntorf from 65.5% 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 (76.5c) a share for the six months to September.

● Technical Investment Corporation’s earnings declined from 66.1c to 63.5c a share, while Technical and Industrial Investments earnings dropped from 70c to 67c a share.
Richemont’s tobacco interests hold up well

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 63 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 Telegpi in June.

Profit before tax moved up 13.5 percent to £262.9 million (£210.9 million) but the tax rate lifted on higher tax paid by the tobacco businesses.

Attributable profits were £115.8 million (£102.0 million), an increase of £13.8 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.

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.
Richemont set on growth path

COMP
Remgro looking beyond cigarettes for expansion

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 Mal-
Farmers fear tobacco tax

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 38.6 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 280 000 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."

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 6.7% decline on 1992.
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 Joppe 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 1998, about R1.7 billion was raised through excise and VAT on tobacco products — and “accounting for 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 a 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. Need...
Tobacco tax: The Canadian experience

In the wake of May 7 to June 2

The Social Affairs Congress in April 1975 placed the first tax on

...proposed to raise the tax on tobacco products and...
MANUFACTURING — TOBACCO

1995
Waltons ‘will lift earnings to R40,5m’

WALTONS is expected to lift earnings to R40,5m (R35,2m) for the year to February (19).

An analyst said turnover was expected to rise to R994,7m (R981,3m). Earnings a share would probably increase to 59,7c (51,5c), while the dividend was likely to increase to 20c (17c) covered three times.

YURI THUMBRAN

He said corrective action taken at 60%-owned Redwood, the toy and baby retailer, and the return to profit of drawing office supplier Ozahd, were expected to have a positive impact on earnings growth.

Chairman Frank Roberts said Waltons was ahead of its budget.

However, as a result of the sale of CMA’s 24.3% stake in the company to Pepkor, it was likely earnings would be held back.
Tobacco industry woes set back Utico

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 R33,4tm (R57m) 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 R42,3m, effective from May 31, and Willards’ results, which had been reported separately, were incorporated only for the five months to end-May.

The 28% decline in group turnover to R453,3m (R606,8m) reflected the fact that Willards made no contribution in the second half. Turnover figures included a marginal rise in United Tobacco’s sales to R346,8m 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 R13,5m from R46,5m. 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 R65,2m. Utico paid an effective 46% (43.9%) tax.

Earnings were 88c a share from 66c a share in the previous year. Apart from a previously announced special dividend of R2 a share, directors declared a final dividend of 86c (85c) a share, covered two (1.7) times. This brought the total dividend for the year to 1996 (265c) a share.

The tobacco industry had experienced “an extremely challenging and difficult” year, the group said.

Events leading up to the election added “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 stockpiling 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 R84 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 this 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 DASNON
Deputy Business Editor

TOBACCO and liquor are likely to be more expensive after the March 15 Budget, says Sanlam chief economist Johan Louw.

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 R5 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

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.

Analysis 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.

Uitco, 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. Uitco closed yesterday at R13.25, 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 R20.50, from a March high of R34.60 and an August low of R13.50. The share has gained 2% over the past month.
Smokers have to cough up an extra 17c a pack

TYRONE SEALIE
Political Staff
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 bottle 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 8,4c for 10, resulting in an estimated retail price increase of six percent.

Boost for house subsidy plan

Political Correspondent

The 7,9 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 R1,320 billion 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.

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."

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.

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 R1.9 million to the exchequer.

The Minister also announced a 6.3c increase in duty on a litre of beer, about 2c on a dumpie, and R1.80 a litre of "absolute alcohol", which will add 56c 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.

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 net 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 fortified wine, the Minister said the state believed that adjustments in excise duties "did not keep pace over the years with rates applicable to other alcohol-based products", and it had been decided to adjust these rates accordingly.

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."
Cigarette group feels the pinch

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 excess 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 into 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 R60 000, he says."
Insider probe into offer for Rothmans

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 3.5 million shares changing hands, saw Rothmans price jump 41p to 535p before the LSE effectively suspended trading on Thursday and Richemont was forced to announce it had bought 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 holding statements that negotiations were taking place, and after the market closed the offer of £2.5p 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 486p.

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’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 R300m 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 Telepiù.

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 R1.1bn. After that, the R290m to R300m Rothmans generated in annual profit would be redirected to build Richemont’s network of pay-TV companies in Europe and Africa.

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 19-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

MARCIA KLEIN

UNITED Tobacco Company has reacted strongly to claims by National Council Against Smoking executive director Yusuf Saloojee that industry pricing policy, and not excise duty, was behind the recent sharp increase in cigarette prices.

Saloojee had said that "only 4% of the recent R1 price hike went to government coffer."

"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

The Tobacco Institute said the
demand for tobacco had increased
to R3,00 in March from R2,57 in
April 1993, a 9c increase over a
period of two years. This increase
went to government in the form
of excise and VAT.

Salopee said the continued de-
cline in jobs in tobacco farming
"is due to the inability of this
sector to compete with the local
and international markets." He
added it was more profitable for
SA manufacturers to import to-
bacco to meet local demand.

But the Tobacco Institute said
SA manufacturers had an agree-
ment 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 pro-
ducers' competitiveness on the
world market has increased."
Tobacco legislation takes effect

Kathryn Strachan

TODAY is World No Tobacco Day. 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 contra-ventions of the new legislation.

The Health Department has also introduced a free phone quit line from today. It estimated that 66% 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 trade-
marks 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 55% 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 5% over the past three years. The coloured population group had the highest smoking rate at 59%, followed by Asians (38%), whites (36%) 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, Mitchell's 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 10 out of 10 children aged between 10 and 12 were able to buy cigarettes from 200 retail outlets in the area.

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SABC proposes reduction of television advertising revenue

Ingrid Salgado

THE SABC would reduce television advertising revenue from 73% of television income to 36%, while licence fee revenue would increase by 5% and government contributions by 3% by next year, the group told the Independent Broadcasting Authority yesterday. A third world 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 Soweto, 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 TV on any 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 group had coverage on at least one channel during primetime 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.

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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 Ndlovu 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 Nudoo said his lawyers were considering lodging an application in the Durban Supreme Court today.

He said "most companies involved in the industry are using the Films and Publications Bill as their guidelines in the absence of fair legislation".

Home Affairs Minister Mangosuthu Buthelezi last month the draft Act could not be seen as legalising pornography and the old "obscene Act remained in force."
Mild version of tobacco warnings

*WM* 2-8/6/95

*Pat Sidley*

**WEDNESDAY** — D-day for health warnings on tobacco advertising — was an ultralight 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 cigarettes and filters. But a fifth larger pack of Belgian cigarettes, which was unaware of 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. Nevertheless, 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 these, 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 is responsible for the tobacco issues in the Department of Health, is in the process of drafting legislation which sought to see smoking in the workplace 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

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.

Citing World Bank estimates that tobacco costs the world more than $300bn 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 900,000 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 €3.8bn, 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

Marcia Klein

The Rembrandt Group (Remgro) performed below expectations in the year to March, reporting a pedestrian 5% increase in earnings to R211.5c (R200.9c) 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 18% 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 49.56c ($0.44c) 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, Malibak and Sappi, and as a result, its contribution to net income fell 3c to 25.8c 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 6.5c ($0.06c) a share.

Earnings from Remgro's remaining interests excluding the effects of the abnormal item, the Gencor unbundling and Vodacom, had increased 17.1%.

Group turnover grew 15% to R5.4bn ($4.7bn), and operating income was 9% higher at R1.2bn ($1.1bn).

After lower dividend income and the abnormal item, net income after tax declined to R61m ($52m). But associates pushed the bottom line up 5.1% to R1.1bn.

Continued on Page 2
Health laws burn Rembrandt's profit

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 (26.60c) a share, making a total annual payment of 49.96c (43.44c).

Net income from normal business operations was R1 103 million (R1 042 million). Net operating income before tax was R1 172 million (R1 078 million).

The tax bill rose to R460 million (R407 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, Malibak 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 186.7c (148.8c) a share after abnormal items. The final dividend is 22.48c (19.55c), making a total annual payment of 36.96c.

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

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 19.4% 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 30.86c (28.40c) a share, making a total of 43.96c (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

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 (145.8c) a share after abnormal items. The final dividend is 22.48c (19.55c), making a total annual payment of 30.55c.

Rembrandt Technical Investment Corporation reported earnings of 137.6c (130.6c) a share. The final dividend is 19.73c (17.16c) a share making a total annual payment of 32.46c (25.23c).

Technical and Industrial Investments reported earnings of 145.5c (138.3c) after abnormal items. The final dividend is 29.02c (25.19c), making a total of 54.14c (29.29c).
REMBRANDT

Clouded by uncertainties

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 pre-tax costs of R37m incurred in rationalizing production units and reducing support services. Also, there were pre-tax 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 extraordinarys 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 Bulliton 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 that Remgro’s profits from its tobacco interests exceeded the inflation rate, thus 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 Unico’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 been held back by 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 on products. Responding, Remgro MD Thays 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.

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 Klov, to Rosse’s steadfastness of overdrafts. “We run a large debtors’ book with a tiny overdraft,” says Klov.

The balance sheet shows long-term liabilities up almost five-fold, as a consequence of financing the group’s expansion in the last year. Klov says the group intends to continue expanding in this way by buying its own offices. This will 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. Klov points out that advertising is PAG’s major expense, and the group has increased 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 Nuc 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 Klov 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.

REALLY PEDESTRIAN

Year to March 31

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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 R5.2m, and attributable income growth of 70% before extraordinary items, to R1m (R589 000).

The market clearly views the shenanigans.

BOUYANT PROFITS

Year to February 23

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<td>Earnings (Rm)</td>
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WAGE DEMANDS

Pie in the sky

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 (Nufswaw) 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, Nufswaw 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 Nufswaw demanding an across-the-board monthly increase of R1 500, which would have brought the lowest monthly cash wage to R2 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, Nufswaw 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 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 Nufswaw regional organiser Thami Mbizo about the level at which his union had pitched its demands. He returned no calls.
politically incorrect locate
Hard times looming ahead for

THE SPIRA INTERVIEW

BACKGROUND ANALYSIS

\( \text{\textcopyright} \)
Ban tobacco adverts on radio, IBA is told

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 adver-
Richemont shares surge ahead of annual results

BY CHARLOTTE MATHEWS
INVESTMENT JOURNAL

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 it holds 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 £255p 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 Telepil in March last year.

Richemont's figures for the six months to September showed the group's attributable profit rose by 17 percent to £12.8 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 rand 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 financial rand, 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

By JULIE WALKER

RICHEMONT, the Swiss-based holding company of tobacco and luxury goods, improved its operating profit by 13% to £385-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 10 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 minorities 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 NAB 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

BY CHARLOTTE MATTHEWS

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 £265.9 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 £9.8 billion, on which operating profit was 13 percent higher at £668.0 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 £25.61 a unit from £25.58, excluding exceptional items and goodwill amortisation. Including those items, earnings more than doubled to £48.69 a unit from £20.83.

A dividend of 77.00 a unit, against last year’s 66.15 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 Richemont International.

Last year Richemont had special costs of £20.4 million on the restructuring of its tobacco and luxury goods interests as well as a £76.2 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 13.1 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 specialty 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

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<thead>
<tr>
<th>Year</th>
<th>Earnings</th>
<th>Dividends</th>
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REMBRANDT GROUP

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, advertising, 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 Herzog families

Chairman: J Rupert MD M H Visser

Capital structure: 522m ords Market capitalisation R14,3bn

Share market: Price 2.775c Yields 1.6% on dividend, 8.0% on earnings, p/e ratio, 12.5, cover, 4.4 1-month high, 3.025c, low, 2.360c 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) 196 216 364 648
Debt/equity ratio 0.3 0.2 0.4 0.1
Turnover (Rm) 4,349 4,701 5,358
Pro-n t profit (Rm) 1,164 1,321 1,413 1,584
Net income 841 956 1,049 1,103
Earnings (c) 180.0 182.1 200.9 221.8
Dividends (c) 0.296 0.322 0.455 0.500
Tangible NAV (c) 1.095 1.243 1.461 2.101

* Excludes special dividend of 30c  † Excludes special dividend of 20c

Financial 1995 was one of mixed fortunes for Rembrandt Group (Remgro). The tobacco division showed a commendable 17% increase in operating profit. This 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 Huntco was increased from 65.9% to 83.5%, at a cost of R248m. Other than the tobacco interests, Huntco 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 Robertson's 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 Malibab, 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. 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 "unit" 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 a p/e 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/e 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...
market in the foreseeable future.

There is no doubt that 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 reates 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 Jaffray
RICHENOMT

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 tough trading band around R40 for two years or more. A recent jump to R46, though followed by a retreat to R44.25, could indicate 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 Vendome 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 (Vendome'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 Vendome has not yet received the full benefits of strengthening economies in many European countries.

Tobacco is a mature business. Despite what seems 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 concern for some investors, but analysts say it is really not an issue. Borrowing will be sourced abroad, in a country like Switzerland, the interest rates would be around 3%.

And Richemont could derive tax-efficient benefits from gearing up.

It is commonly thought that part of Rothmans's 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 performers 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 change for 10 years.

\[\text{FIRING UP}\]

\[
\begin{array}{|c|c|c|}
\hline
\text{Year to March 31} & 1994 & 1995 \\
\hline
\text{Turnover (Rm)} & 3 065 & 3 852 \\
\text{Operating profit (Rm)} & 659 & 688 \\
\text{Attributable (Rm)} & 304 & 262 \\
\text{Earnings per unit (R)} & 35.6 & 48.6 \\
\text{Dividends per unit (R)} & 16 & 7.0 \\
\hline
\end{array}
\]

\[
\text{Additional items and goodwill amortisation} \\
\text{Excluding exceptional items and goodwill amortisation} \\
\text{\textsuperscript{1}}
\]

\[
\text{\textsuperscript{1}}
\]

\[\text{CORE GROWS}\]

\[
\begin{array}{|c|c|c|}
\hline
\text{Operating profit (Rm)} & 404 & 491 \\
\text{Principal contributions} & 194 & 222 \\
\text{Subsidiaries} & 381 & 381 \\
\text{Tobacco} & 11.0 & 11.2 \\
\text{Luxury goods} & 14.5 & 12.4 \\
\text{Other} & 606 & 886 \\
\text{Associates} & (26.7) & (38.1) \\
\text{Media interests} & 11.0 & 11.2 \\
\text{NAR Group} & 14.5 & 12.4 \\
\text{Tobacco} & 606 & 886 \\
\text{Total} & 381 & 381 \\
\hline
\end{array}
\]

\[\text{Source: Harris}\]
Rupert criticises health warning law

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 Johan 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 incursion of property rights by degrading trademarks and packaging designs.

The once-off cost to comply with the 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 trading mark group division, which contributed 51% of total earnings.

Rupert also criticised government's intention to increaseexcise 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 Medco from Saco for R10m, bringing its holding in Medco 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 R55m in Vodacom, bringing the total to R99m, exercising its rights in Sage Group at a cost of R22m, 50%-owned Medi-Clinics' R41m acquisition of Medi-_cor 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

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 Ku-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 5.8-million kg last year which was sold mainly to Rembrandt through the Tobacco Exchange.

But Ku-Wah has tabled investment plans worth around R5-billion in the region, with a massive new cigarette factory to be in the list. The Eastern Transvaal government has suggested the Ku-Wah joint-venture with LTK to build and operate the factory Ku-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 and the plant would look at supplying both the domestic and export market. Official Antoin Scheepers says: "We're getting the two together. Our main aim is to create investment in the province."

Rembrandt—which controls around 65% 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.
Rembrandt's mainstay still tobacco

The news focus

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 only 8% 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 of cigarettes to carry health warnings since May 1 while cigarette packs must carry the warning 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 blunt intrusion upon the property rights of your company" and Visser sees them as an infringement on trademarking. It makes it difficult to distinguish between brands. Cigarette packs must carry warnings of 15% of the front and 50% 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 to cover 25% of the front and 50% of the back. But, he says, the effect of the consumption is difficult to calculate.

Analysts say the evidence suggests the warnings alone 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 potential 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 R23.30 in September to R31 recently. The share is now at R37. Where locals have tended to be concerned about the threats to the tobacco business, foreign fund managers compare it 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 group's "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 of the listed portfolio to R3.8bn.

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 call for for its lack of focus. Little of it fits in with management's core competence of managing consumer products 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 Frelax, Rolan Bank and Momentum Life recently.

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 share-
Chinese deal could undermine Rembrandt's TTL ink
Richemont poised to buy Rothmans

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 buyout within three years.

The deal still depends on a court hearing today to sanction the scheme.
Rembrandt hurt by smuggling

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 industries, said Rupert.

there were a number of major problem areas, including the crime rate, poor education levels, excessive corporate taxes and trade unions which were under-manning investment, Rupert said.

Referring to difficulties that law should be 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 revenue.

He criticised the increasing duties on cigarettes, which had gone up by 25 per cent a year for the past two years and which was accelerating smuggling. He could not say at what level of duty smuggling would become uneconomic. Rupert accused the government of giving contradictory signals on the tobacco industry.

While it was stepping up campaigns to discourage smoking, the IDC had signalled its intention to give foreign investor in the tobacco industry soft loans, said Rupert.
Rembrandt hurt by cigarette smuggling

BY BRUCE CAMERON  ASSISTANT EDITOR

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 unions, 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, 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.
Cigarette excise duty takes its toll on Utico

Marcia Klein (93) 00 11/8/95

FURTHER declines in cigarette volumes saw tobacco products group Utico Holdings' earnings slump 49.4% to 11c (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 R185.5m (R182.6m). Directors said this reflected the effect of higher excise and artificially high purchase prices in June last year ahead of the excise increase announced in the budget later that month.

Although United Tobacco's operating income slumped 46.5% to R10.6m (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 (R13.2m), and an interim dividend of 30c (20c) a share was declared.
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 15 962 ha, these farmers make an enormous contribution to the economy." — Sapa
Richemont confident of rising sales of cigarettes.

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 1989, 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 Telepiù 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

BY CHARLOTTE MATHews

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 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 managing director said in the group's latest annual report.

After a deal with Rothmans shareholders this year, Richemont now owns 100 percent of Rothmans International, whose cigarette brands include Peter Stuyvesant, Craven "A" and Dunhill. It also has substantial electronic media interests and a 70 percent share of luxury goods manufacturer Vendome.

Since 1979, world demand for cigarettes had grown by an estimated 1 trillion or 25 percent, Rupert said.

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 year ahead 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

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 counsel 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."


**Strong growth in core businesses**

*Activities:* Tobacco, luxury goods, direct retailing and electronic media

*Control:* Compagnie Financière Richemont AG 100% Ultimate control lies with the Rupert and Herzig families

*Chairman:* N Sorn MD J Rupert

*Capital structure:* 5,2m "A" bearer shares and 5,5m "B" registered shares ord Market capitalisation R8,27bn

*Share market:* Price R44 Yield: 0,9% on dividend, 5,5% on earnings, p to ratio, 16,8, cover, 7,0

*12-month high:* R46, low, R35,50 Trading volume last quarter, 12,4m shares


| ST debt (em) | 468 | 523 | 391 | 422 |
| UT debt (em) | 778 | 786 | 136 | 103 |
| Turnover (em) | 3,108 | 3,443 | 3,665 | 3,652 |
| Pre-int profit (em) | 584 | 633 | 1,476 | 608 |
| Earnings (E/unit) | 34,36 | 36,26 | 20,03 | 46,69 |
| Dividends (E/unit) | 5,63 | 5,69 | 6,15 | 7,0 |

1 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 after-tobacco 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 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 disastrous increase of 14,8%.

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 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 ongoing 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 (Vendôme'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 Rothschilds 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, USS320m was invested in acquiring 5,7% of Medaset, the Italian TV empire owned by former Prime Minister Silvio Berlusconim.

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 £18m, 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 under-valued at Richemont's JSF; price of R44. Some analysts say there is value up to at least R50 with the inclusion of Rothmans as a wholly owned subsidiary.

**Shawn Harris**
Richemont hopes for ‘satisfactory’ figures

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, our board is hopeful that satisfactory results will again be achieved during the current year," he said at 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 £225m, or about SF990m — Reuters."
Call to ban tobacco ads

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.
Tobacco interests may merge

Nicole Mordant

REMBRANDT Group (Remgro) and Compagnie Financière 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 R30,26 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 depositary 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 3,78% higher at R18.

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.
Tobacco
merger talks
(196) CT(PE) 21995
BY CHARLOTTE MATTHEWS

Rembrandt and Remgro 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 Rembrandt 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 Remgro'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 invest in African tobacco interests, which are fairly small, into the deal together with some cash and Remgro shares.

According to stockbroker David Meaden, such a deal could result in the JSE-listing of a new tobacco company, which would be of considerable advantage to Rembrandt shareholders.
Different smoke rings

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' stead 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 unbinding 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.
Tobacco sponsors are a delicate issue

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 organizing 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 organizers 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 Ingvald has dubbed the decision a victory for sport: "No event organizer 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 previ-ously 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 Organization (ICAO) to ban smoking on all international passenger flights by July 1, 1998.

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

Staff Reporter

CIGARETTE prices have risen 25c for a pack of 20 and 30c for a pack of 30.

Don da Silva, spokesman for a firm of tobacco wholesalers, said the company was told of the increases by tobacco companies on Wednesday.
Tobacco Institute gave us snuff, say pupils

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, Alex 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 by deadline yesterday, but in a letter to the National Council Against Smoking, which took up the issue, institute director Dr GD Jeubert 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

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 $3 million (£2 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 stake in the Shanghai Tang several weeks ago, but the latest deal enables it to lift its shareholding to more than 50 percent.

The deal 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 4500 sq ft. It then plans to open 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, Paco Rabanne 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

BY NEL RISBERG

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 (847 million) to Shanghai Tang, and is extending its operations in other cities and is already considering opening a store in London.

Shanghai Tang, which had been 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.

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Appeal

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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 4,500 sq ft.

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 opened talks with several interested parties who would like to be involved in operating a store in London.

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, Palais and Mont Blanc.

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Mike Hanninson, Romatex’s chief executive, said: "We are focusing on textiles. Smaller Romatex benefits companies because they are more flexible and can be adapted to local markets."

"Our focus is on providing high-quality, cost-effective solutions that meet the needs of our customers. This allows us to deliver on time, every time, which is crucial in today’s competitive marketplace."
Richemont to benefit from shrinking rand

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 reported 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 Sony, 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.
Advertising ban looms for tobacco firms

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 smoking is harmful to health."

Dr Prozesky said it was the council's business to provide the facts, "which we've done".
Remgro boosts Remgro figures BDT 12.95 ($1.98)
Edward West

CAPE TOWN — Rembrandt Group (Remgro) lifted attributable income 74.7% to R873m 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 40.5% higher at R846m. 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 126c a share. Turnover shot up to R466m (R252m). However, R108m 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) BDT 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 Genkor, Engen and Malibou, was slightly lower at R1.13m (R1.15m). Income from associates, including Distillers, SFW, Medi-Chin, Total and Transalp, increased 84% to R1.49m. Taxed income was 29.8% up at R567m. 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 exceptions to R116m (R86m)
Richemont boosts profit (in %)

By Charlotte Matthews

Johannesburg — A good performance from its core tobacco and luxury goods interests contributed to a 32 percent improvement in earnings from Swiss-based Richemont in £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 8 percent higher at £354.1 million.

According to the directors, the tobacco interests, held through Rothmans International, improved operating profit by 4 percent to £284.1 million while Vendôme Luxury Group reported operating profit, 13.4 percent higher, at £113.3 million.

The group's share of losses from its media interests, held through Netstead, eased to £14.9 million from £16.1 million.
Remgro seals tobacco merger worth R26bn

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 R4.4 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 Africa region.

In a joint statement the companies, which have been operating under cautionary terms 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 businesses 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.
Group profit surges 31%  
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

THE new Rothmans International group, formed from the merger of Rembrandt’s and Richemont’s tobacco interests, will sell 203 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 R28 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 R15.6 a share, 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 18 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 Safari shares, the group’s only investment, to shareholders. Crendell has already sold 35 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’

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 Behrend, 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 establishement 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 flows from tobacco are 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

SOMERSET WEST — Health Minister Nkosazana Zuma said yesterday that 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," 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.

Transkei health crisis

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 understaffing problems, absenteeism, poor security, a lack of equipment, insufficient drugs and dismantling 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.

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 metropole council all have counsel representing them at the hearing — Sapa.
ANTI-SMOKING STRATEGY ON TABLE

Commonwealth call for tobacco ads ban

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 companies' "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
Total ban on tobacco ads mooted

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 50 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 member states 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.”

While tobacco use and production were on the decline in the US and western Europe, it was on the increase in developing nations, particularly those in Asia and the western Pacific.
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Cigarette industry’s spending on ads slides

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 18.6% to R66.6m in the year to mid-August 1995 from R69.3m the year before, despite an overall print category growth of 15%.

BSB Bates media planner for United Tobacco, Pue Masai, 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 8.6% to R54.8m.

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 R77.2m in line with the overall growth rate.

In terms of legislation on labelling and advertising of tobacco products passed by the health department, cigarette advertisers had to carry health warnings equivalent of 12% of the advert size, said Masai.

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

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

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 historic 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.

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 Leuschers and Hephburn (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.
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 emphasized 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 Richemont 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 Richemont International apportion one-third of the enlarged group to Remgro. That translates to about £3bn (R17.3bn) for Richemont International in its present form and £1.5bn (R8.7bn) for Remgro's tobacco interests — a total R26bn.

These interests accounted 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 Richemont 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.

Richemont 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 Richemont was gradually built up. A significant subsequent development was the removal of cross-shareholdings and separation of Richemont's operations into two companies — Richemont International and Vendôme — to hold the tobacco and luxury goods interests respectively.

Then 100% control of Richemont was acquired in July this year, 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 Richemont 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.

Rupert 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 Richemont 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 Richemont International group and share in the development of its international tobacco interests.

Richemont will consolidate results of Richemont 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 Richemont's 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 Richemont.

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 Richemont 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

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<thead>
<tr>
<th>Rembrandt</th>
<th>Sep 30</th>
<th>Mar 31</th>
<th>Sep 30</th>
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<tr>
<td>Operating Income</td>
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<td>Attributable (Rm)</td>
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<td>Dividends (ct)</td>
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<td>30,36</td>
<td>24,5</td>
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† 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 "currently being contemplated." But further ahead some form of restructuring seems likely. The investments — ranging from energy (Toal Engen) to mining (Gold Fields SA, Genkor), 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 Hadelberg — 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 covered by Remgro.

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."

Approach for comment, JCI gold division CEO 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 deal that is supposed to indicate that protection against risk has been built in. This is a massive 223.9t of gold, and if the information is correct (it is from a traditionally unsourceable 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 a part of Western Areas gold mine. But estimates of forward production to the turn of the century from Western Areas is only about 101t, so JCI's move effectively alsoembraces production from Randfontein and Joel over the next five years.

The business of gold hedging is an intricate process in which the paper values 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 affected 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 withdraw from active lending. They may be compromised 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 USS), the gold lease rate, the USS 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 soared into the stratosphere, 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 Tommen (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 planning angers some investors. London fund manager Julian Barnig 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 to all 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.

\[\text{Sources: Various.}\]
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”.

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.
DANIEL PRINS, THYS VISSER, DILLIE MALHERBE & JAN DU PLESSIS

The university of Rembrandt

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 trace 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. Thus, 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, a former student from Rupert, Pretoria University graduate Prins is one of the key figures involved in the merger, together with Remgro MD Thys Visscher, investments director Dillie Malherbe and, in London, Richemont and Rothmans financial director Jan du Plessis.

For 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 1985. 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 Edwyn 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 45% associate company Meds-Clinic.

Married to Elizabeth, the couple has two sons, Wilhelm and Ernst, and a daughter, Estelle.

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 as 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, fishing and rally driving.

Gys Steya 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 Lalle, executive chairman of Lenca, who was appointed to the Remgro board in 1993, and Neil Morris, MD of Remgro subsidiary Hunterco.

Morris has been on the board since 1990. Apart from Willem Malherbe, other non-
executive 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 there 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 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 CEOs."

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 now runs Boland Bank.

There is also the son of former State President Jan Fouche, Jonny 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 Gymnasium. 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 Financiere 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 re-awoke fears of antitrust litigation.

With his legal background, du Plessis was sent to London in 1983 to oversee the company's apart from being back in the Cape between 1984-1986, he has remained overseas for Richemont, working in London and at the group's head office in Zürich, 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 Remgro, 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."

Shane Harris
MANUFACTURING - TOBACCO

1996 - 1997
Smoke signals round in ad new war

Any government moves to impose further restrictions on tobacco advertising will have advertisers fuming.

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 and that a causal link cannot be established.

The IAA also supports the right to advertise and has been against any attempt to eliminate tobacco advertising.

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Ball in Zuma's court after court's nod for tobacco advertising

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 over whether cigarette advertising really does promote smoking rumbles 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.

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 that are legal — such as tobacco, liquor and even some medicines — but have drawn critical attention from lobbyists.

One of the foremost critics of the lobby to ban the ads is Johanna McDowell, vice-president of the International Advertising Association's SA 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," she said.
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Plan to stub out smoking 'pimps'

By LINDA RULASHE

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 carries 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 Yusef Saloojee, the executive director of the National Council Against Smoking, compared the tobacco company's sport sponsorship to a "pump which procures new customers".

The Advertising Standards Authority, however, maintains that sponsorship is not advertising.
Rembrandt shareholders approve tobacco interests merger.
Tobacco merger the way to international opportunities

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 R38.75 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 shareholder 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 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 statement added.

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 R35 close on November 30, when the deal was first made public.

Deal set to boost breweries' earnings

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 Mahade 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 cash out 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 (R1.5m).

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 invested in Crusader Life, and planned to use it to capitalise Vivo Breweries.

EXECUTIVE SUITE
SA doctors support US tobacco war

BY CAIO PEREY

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 began before they were 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.

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.

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.
Rembrandt dividends come out 'smoking'

ALIDE DASNOIS
Business Editor

DIVIDENDs 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 Venderine 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, 37.5c (30.5c last year), Rembrandt Controlling Investments, 28.10c (22.46c), Technical Investment Corporation, 24.66c (19.73c), Technical and Industrial Investments, 26.14c (20.92c last year).
The conference is a forum for the
industry to address the
future of tobacco use.

The conference is an opportunity to
exchange ideas and strategies for
reducing tobacco use and its
health impacts.

The conference provides a
platform for professionals to
share research findings and
develop innovative solutions.

The conference aims to
strengthen collaborations
towards a smoke-free future.

The conference is organized by
the Tobacco Control
Association.

The conference is a key event for
those interested in tobacco
control and public health.

The conference draws attendees
from diverse backgrounds,
including medicine
research, policy, and
advocacy.

The conference features
workshops, keynote speeches,
and interactive sessions.

The conference focuses on
the latest advancements in
tobacco control strategies.

The conference is an important
catalyst for global
cooperation in tobacco control.

The conference is scheduled to
take place in September 2023.

The conference website is
Rembrandt feels heat of tobacco companies

COMPLEMENTARY

On Feb 22/2196, Rembrandt

Sanford Shapira

UNIVERSAL COMBINED

18 BUSINESS DAY, Thursday, February 22, 1996
COMPANIES

Utico hit by cost of health warnings

Jacqueline Zaina (198) 60 23 1296

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 (86c).

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 R371.8m, 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 R402.8m.

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

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 hitherto not 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 R2 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.

“Imperial 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

Linda Enser and Jackie Zaina

CAPE TOWN — The finance minister showed little difficulty yesterday in amassing the sinful, hitting tobacco and alcohol users.

Excise duties on cigarettes rose 16%, 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) rose by 8,5c 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 6,6c 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 rose 11c a litre (8c a 750ml bottle) with those on cane spirits rising 208,30c 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 R200m to the state treasury in excise duty and VAT.

Board chairman Wrenzh Louw said government should be wary of wringing the neck of the goose that laid the golden eggs.

Unico group financial director Seville Chonn said the group was disappointed that higher excise duties would fuel inflation and exacerbate smuggling.

But the National Council Against Smoking and 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 Adams said beer continued to be discriminated against in comparison to wines, ciders and spirits.
The 18% excise duty hikes up a hike on tobacco tax, which affects the lowest tax rates in the world. South Africa still has one of the lowest tax rates in the world, with a 1996 budget total of only R220 million annually to state coffers. Together, this represents a huge growth market. However, the lowest rate of cigarette consumption in the world means the tobacco industry reports widespread lobbying against higher excise duties. Further increases on cigarettes and tobacco products would further dampen the market and increase the potential for widespread smoking.
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%.

“TThis 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 healthcare costs associated with smoking are rising, real government revenue from the tobacco industry is declining.

“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 increase in excise taxes since 1970 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.
Tobacco group's legal battle has wide implication

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 19, 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 $2 million (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 begat lawsuits. But up to that point, 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 defense costs, millions of words of obstruction, 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 $850 million (R3.5 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 $2 million is a far better bargain than the $10 million (R40 million) it currently shells out annually in legal fees. If Philip Morris accepted similar terms, it would be liable for $440 million (R1.2 billion) a year, or 12 percent of its 1995 pre-tax domestic tobacco business profit of $3.7 billion.

Then again, as analysts further point out, the behaviour of Bennett LeBow, chairman of Liggett's parent Brooke Group, who may be 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

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 Uitico a total of R80m.

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 Yusuf 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 Uitico 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 collected through normal democratic channels of tax collection and might not even be constitutional.
Industry ignoring health regulations, says lobby

Jacqueline Zaina

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 R60m a year on television and radio advertising, is hardly surprising," said Shephard.

Why buy a
Tobacco firms to wait and see

Jacqueline Zuma
20.13.96

The tobacco industry is adopting a wait-and-see approach to proposals for an extra 5% tax on tobacco companies meted by health department consultants last week.

A spokesman for R&R Tobacco, representing the merged tobacco interests of Rembrandt and Swiss-based Richmont, 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

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 Henk Eijndt 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 advertising and the banning decision was taken as Mr. Eijndt believed the ads 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.”
Govt to ban tobacco ads

Jacqueline Zaina

GOVERNMENT plans to ban tobacco advertising in an attempt to rem 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

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 Dean Coley 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 38 000-strong direct workforce.

The Tobacco Institute of Southern Africa said about 300 000 people depended on the industry for a living.
Tobacco interests help to lift Rembrandt's earnings

By Marc Hasenfuss

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 Rothmans' 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 higher 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, Melkor, Gencor and Goldfields. There were concerns over Huntco, 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’

By Roy Cokonyi

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 Mkhizee, the minister of sport, proposed the cigarette levy in the senate recently during discussion on his budget vote.

Truu said the proposed levy would distort all the basic linkages in the economy. People should pay tax on things they consumed, he said.

“A tax on tobacco would be misused. It would do no good to the community. It would be used for sports, but that is not what the tax is for,” 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 that politicians might use again.

The policy of robbing Peter to pay Paul would cause waste and might lead to corruption among sport administrators, he said.

There were many deserving causes in society. It would be impossible to finance them fully by taxing prohibitible economic activity.

A spokesman for the Tobacco Institute said the tobacco industry was one of the highest-paying industries in the country. Last year it contributed more than R2.4 billion to the coffers of 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.
More companies join the clean air bandwagon as puffers banished

By VENILLA YOGANATHAN
and BENITA VAN EYSEN

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 buildings.

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.

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 canteens 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 spokesperson 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 PORCHES?

Many people who smoke feel that it is their right to smoke in public places, but at work, on porches, or even in their own homes. The public health community is concerned about the health effects of secondhand smoke, but it is difficult to legislate against smoking in public places. The American Lung Association recommends that workplaces be smoke-free environments, but this is not always possible. The National Cancer Institute advises individuals to quit smoking and avoid exposure to secondhand smoke.

Smoke-Free Environments

Many employers have implemented smoke-free policies to protect employees from secondhand smoke. These policies vary in their enforcement, but they can help create a healthier work environment. Some communities have passed ordinances that restrict smoking in public places, but enforcement can be challenging. The American Cancer Society supports smoke-free policies and encourages individuals to advocate for them.

Secondhand Smoke Exposure

Secondhand smoke is a significant health risk, especially for children and vulnerable populations. The Environmental Protection Agency (EPA) estimates that secondhand smoke causes approximately 3,200 deaths each year in the United States. The Natural Resources Defense Council (NRDC) has called for stronger laws to protect people from secondhand smoke.

Smoke-Free Policies

Employers have a responsibility to provide a safe and healthy work environment. smoke-free policies can help protect employees from secondhand smoke. The National Institute for Occupational Safety and Health (NIOSH) recommends that workplaces be smoke-free environments. The American College of Chest Physicians (ACCP) supports smoke-free policies and encourages employers to implement them.

Secondhand Smoke and Children

Secondhand smoke is a major risk for children, who are more vulnerable to its effects. The American Academy of Pediatrics (AAP) recommends that smoking be prohibited in all areas where children are present. The AAP also recommends that parents stop smoking to protect their children from secondhand smoke.

Smoke-Free Policies and Environmental Justice

Smoke-free policies can also address environmental justice issues. Communities with a high proportion of smokers may benefit from smoke-free policies that protect vulnerable populations. The EPA recommends that smoke-free policies be implemented in communities with a high proportion of smokers.
Tobacco industry could cough up

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 about R2.2bn a year in lost productivity due to premature death and hospitalisation and out-patient 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 Legenaar 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 alibis.

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

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 had a recapitalisation of at least R500m for Rainbow had become necessary after its disastrous R160m attributable loss for the year to March. Rembrandt holds 83% of Huntercor 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 performance 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 which, 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 26% 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 Carol 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 hefty R338m.

Also contributing to the results was the performance by 75%-held Metkor, which had reported headline earnings of R3,87m per share for the 18 months to end-March compared with 6,47m for the year to end-September 1994, analysts said. Dorbyl too had turned in a remarkable showing.

Most analysts did not expect further 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.

Huntercor, which reported a sharp earnings drop to 58c (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 (Genkor, Goldfields SA and Transcations) would contribute about 25% to total earnings, industrial interests (Dorbyl, Huntercor, Metkor and divestments from Engen, Sappi and Malbank) 10%, financial services (Absa and Sage) about 10% and corporate and other services (Vodacom, Med-Clinic and offshore portfolio investments) about 7,5%.

Absa increased headline earnings 30% and Sage 26%.
Tobacco helps to light up Rembrandt

Linda Ensor

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 (R949m), 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 pro-interest operating profit fall 8,5% to R1,57bn 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 76%-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 boosted its tobacco and liquor interests, shot up 30,4% to R806m. Mining income rose 27,5% to R246m. Income from industrial interests plunged 27,6% to R108m largely due to Huntor'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

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Rembrandt

Continued from Page 1

a one-third share from October, accounted for in the result 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 (R1,5bn).

Its listed investments had a market value of R2,6bn (R4,5bn) and directors valued its unlisted investments at R16,3bn (R4,5bn).

Rembrandt Controlling Investments (RBI) earnings were 210,3c (164,5c); Technological Investment Corporation's (Tegkor) earnings were 185,1c (144,2c) a share, and Technical & Industrial Investments (TIB) 195,2c (182,8c).

See Page 15
Richemont lifts its profit to £798.9m

John Cavin

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 £33m realised from property sales in 1994 and last year.

Reporting from Zog 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 £3.3bn. 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 shrinkage 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 £16.7m, losses in its pay-television interests (held through 50% of Netcable BV) rose more than £2m 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 £1.3bn to borrowings of £240m as a result of the £1.65bn buyout of the Rothmans International minority shareholders and Richemont's £180m investment in Netcable's pay-TV developments.
Now we're really smoking.
Rembrandt meets expectations as tobacco interests bolster bottom line

By Marc Hasenfuss

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 Medkor, 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, Richemont 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 Rothmans — 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
in tobacco. That comes through clearly in Rembrandt Group (Remgro)'s results, a 28% increase in EPS (before exceptions) 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 R85.6m, 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 Metkors 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 Huntco 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 R177m.

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**STILL SMOKING**

<table>
<thead>
<tr>
<th>Year to March 31</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>10,665</td>
<td>12,760</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>2,637</td>
<td>3,302</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>2,422</td>
<td>3,498</td>
</tr>
<tr>
<td>Earnings (Rm)</td>
<td>52</td>
<td>84</td>
</tr>
<tr>
<td>Dividends (Rm)</td>
<td>49.96</td>
<td>62.45</td>
</tr>
<tr>
<td>Before exceptions (Rm)</td>
<td>52</td>
<td>84</td>
</tr>
</tbody>
</table>

Corporate finance, which includes Vodacom, Medi-Clinic and some foreign investments, nearly doubled to R207m.

With the obvious exceptions of Huntco 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.

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The improvement here - and the longer-term possibility that Huntco 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

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MORE OF A RAND HEDGE

Despite legislation health warnings, punitive excise duties and the anti-smoking lobby, there's still good money.
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 to tobacco and luxury goods in a year than the total investment in pay-TV.

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 £186m was injected into NetHold, partly offset by Richemont's strong cash-generating ability.

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 1996, 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.
Tobacco curing

Françoise Botha

The irony of a company whose reputation has been built on its tobacco interests and has focused 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 Clinc 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 property 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 fully 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 reated, a paper transaction makes sense," he says. Medi-Clinic ordinary shares have traded sharply up over the past few weeks, increasing from R5.50 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 Sunlam-owned Louis Leopold in Bellville. The Louis Leopold unit is one of two 2000-bed hospitals that Medi-Clinic acquired for 30 000 beds and about 5 percent of the present rental expense.

The company, which was founded in 1983 and first listed in 1996 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 Medcor 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 R250 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 undeniably hoping to take market share from its largest rival, Clinc Holdings, which controls 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 operators. 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 Clinc 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 efficient can 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 potential 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

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 centered 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 — Reuters.
Smokers in SA show rise in smoking rates by race

Statistics

More black and coloured people are smoking and there are fewer that target disadvantaged communities.

For cigarette advertising campaigns.
Bread price rises outstrip cigarettes over last six years

Indictment of Government’s fiscal policies, says anti-smoking chief

BY JANUH SENIOR
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 Yusuf 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 75% 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

COMP

(18)
Rupert upbeat about tobacco

By Marc Hosenfeld

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, noted 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 5.4 billion cigarettes," he said.

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 Costano class-action lawsuit in the United States.

The case, brought by a Louisiana-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 Hosenfeld

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 violations have not bluntly remittend results.
Questions over cigarette price hikes

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 6.1% 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 Vesser

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, R42.42, low, R25.75 Trading volume last quarter, 10.5m shares

Year to March 31

'93 '94 '95 '96
ST debt (Rm) 271 79 85 140
LT debt (Rm) 283 604 648 744
Shareholders' interest — 0.84 0.88 0.93
Int & lessee cover — 16.9 16.0 6.8
Return on cap (%) — 14.9 12.7 4.1
Turnover (Rm) 4,349 4,701 5,365 7,556
Pro-fit profit (Rm) 1,321 1,491 1,564 1,106
Profit margin (%) t/a 21.8 26.6 11.9
Earnings (c) 182.1 289.9 225.8 283.7
Dividends (c) 30.2 243.4 50.0 62.5
Tangible NAV (c) 1,343 1,707 2,101 2,625

† 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 Richmont 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 Richmont.

Rothmans International Holdings SA (RIF) was incorporated in Luxembourg to serve as the holding company for the tobacco interests of Remgro and Richmont. Relative values of £1.5bn for Remgro's and £3bn for Richmont's holdings leave Remgro owning a third and Richmont two-thirds of RIF.

Remong 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% jump 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. Aided earnings by 14.5%, Dorbyl by 14.9%, Lencol lost a net attributable R22m in the petrochemicals, 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 exceptional items.

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 Richmont, with Remgro shareholders receiving shares in Richmont.

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, HML and Rainbow remain uninspiring.

Meanwhile, the case for investing in Remgro rather than in Richmont — a pure rand hedge — does not appear to be compelling. Gerald Hirston
predicted last December, observes CE Trevor Munday

"Considering that Polfin 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.

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 repaid 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 R160m kick in for the first time in 1997.

After deducting a higher depreciation charge, this should contribute as much 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.

The Board on Tariffs & Trade has responded to Polfin’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 Polfin share drop precipitously 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. 

PROTEA FURNISHERS

READY FOR EXPANSION

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 1996's 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.

Also, changes in surrounding 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 instalments 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 106c 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.
and cigarette sales cut chokes beer

Takman's growing

1981/1982
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 said. "You would have to smoke five or six acres of the stuff we are growing to get a hit." – Times News Service (1987) Apr 17 1987.
You don’t smoke it, you wear it!

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 hemp — 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.
Shops still sell ciggies to kids

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, 98.7% 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
FUELED BY TOBACCO

(198)

(1M23/8/96)

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

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<td>Dividends (E/unit)</td>
<td>5.89</td>
<td>6.15</td>
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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 has 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.

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 (£34.4m), Asia (£138.4m) and 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 Mont Blanc.

No geographical breakdown is given but these interests are widely spread and growing. Cartier's retail network continu-
used to expand with 164 boutiques open

ed the world by year-end. Twelve
now shops were opened, seven in Asia.

Rupert says in the luxury goods
business the slow pick-up of consumer
confidence continues to limit the growth.

The impact of the world-wide media

The press notes that fundamental change
is occurring in this industry. Investment
advisory activity is high and the "take-off"
uptake of digital broadcasting technology
is expected to grow over the next few years.

A 12-month low. The profit record, clearly
is low and currency hedge element about
the SE's leading rand hedge share.

The group is widely spread around the
world and the round trip earnings is
the best of the three currencies. It remains one of the
SE's leading rand hedge share:

The financial position is relatively
strong and the funneled profit and
funds are attractive. The financing
and the new borrowing position is only £239m. The net
borrowing position is only £240m. So
the balance sheet remains robust.

Aside from the dominance of interest,
the influence of exchange effect on the SE's
valuation of the shape. Additionally,
the shareholders will benefit from
the high level of acceptability of
such currencies. It is clear that
Rupert has joint venture. In some of
its territories and product, a loss of
£4.6m in Canada, and absorbing a loss of £4.8m
in the UK. £4.1m in the UK, £4.1m in the UK.
PERTH, 29/08/96

68% in SA favour tobacco ad ban

PERTH - Altogether 68% of South Africans favoured a ban on tobacco advertisements, Department of Health director-general Dr. Clive Shhama 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.

(PTI) (198)
Cigarette excise duties
a ‘double-edged sword’

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 jury 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.

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

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 Satioooee, 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 Satioooee 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 glamorous."

Smuggled tobacco escapes tax

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, R1.2m was involved.

She said governments had to be aware of the widespread 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 smuggling. 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 debt to their economy and that tobacco control measures are in their economic, as well as health, interests," she said.

World Health Organisation Expert Neil Colhassy 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."

(Barbara 2/9/96)
SA has lowest tax on tobacco products

BY Michael Peña

NATIONAL NEWS

TAXATION on tobacco products in South Africa is among the lowest in the world according to a leading analyst at the University of Pretoria's School of the Social Sciences. This is based on research conducted at the Tobacco Taxation and Policy Research Group. The report shows that South Africa's tobacco tax is much lower than that of other countries. However, there are concerns about the impact of low tax on public health.

The analyst notes that the government should consider increasing tobacco taxes to discourage smoking and raise revenue. However, the government has been reluctant to do so due to concerns about the impact on the economy.

The report also highlights the need for more research on the effects of tobacco taxes on public health and the economy. It calls for a broader public consultation on the issue to ensure that the policy is evidence-based and effective.
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Paper union calls for one-day strike

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 Mhlungu, 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(E)519176
**Hortors (198)**

**Reason for Confidence**

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 85%
- **Chairman:** E M Jankelowitz MD S F Corman
- **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

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† 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 minoritys one CTP share for 10 Hortors shares it is likely that news of the appeal is tempering market reaction.

In fiscal 1996, costs of relocating and integrating subsidiary Clegg Holdings caused operating margins to drop though turnover improved. This year, Hortors acquired the controlling inter-

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 reated during the year, it still has longer-term attractions which presumably is why CTP wants the shares held by minorities. 

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**Edwin Jankelowitz**

**118 Companies**

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 1996 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.

**Hortors**

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**Michelle Joubert**

**1995 Sources Sheet**

**1996 Sources Sheet**
Smoke surrounds tobacco ads

With advertising averaging R166-million, the local tobacco industry has refused to voluntarily withdraw its ad campaigns, reports Gillian Farquhar.

The week the Tobacco Institute of Southern Africa declared that the country's tobacco companies would voluntarily withdraw their advertising next year, it was speculated in advertising and marketing circles, that the move would be the first attempt by American tobacco companies to preempt the government's legislation to ban a total ban on all advertising.

In the US, the proposed voluntary withdrawal of advertising to curtail the under-age use of tobacco products was rejected by Congress, who argued that the proposed ban by US tobacco companies fell short of its demands.

Although it was not planning to voluntarily withdraw tobacco advertising, the local tobacco industry said it would withdraw advertising ban against the spirit of the new economy.

It argued that a ban on tobacco advertising would also be in violation of freedom of expression.

Director of the Association of Marketers and Sadco, Trevor Dockin said: "Advertising ban would have been used as a tool of government intervention in the advertising industry, it would be the greater advertising to place restrictions on the advertising of a product that is said to be a vice, it would be a case of grey market advertising".

Dockin said that the association of marketers and Sadco had told the government that it would oppose any advertising ban that would result in a ban on advertising.

According to an advertising research company, the country's total advertising figures for the year ending June 1996 was about R4-billion — with tobacco advertising responsible for R166-million.

Last year the total ads spent was R4.2-billion with R168-million spent on advertising.

According to Adindex 1996 figures, tobacco advertising accounted for 19.6% of ads spent in the media and compared with 30% for newspapers. For 1995, the figures were 17% and 37% respectively.

This year's Adindex figures indicate that 45% of all advertising in print media was related to tobacco products, while radio was responsible for 37% of tobacco advertising. Tobacco advertising spend in print and radio soared a 5% increase since last year.

The power of the media would be "hard-hat" by a ban as the sector relied heavily on tobacco advertising, Dockin 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, Dockin warned.

The SABC, the SABC's chief finance executive said advertising on the offensives many tobacco billboard ads are illegal as the health warning is too small, claims the National Council Against Smoking.

Offensive: many tobacco billboard ads are illegal as the health warning is too small, claims the National Council Against Smoking.

Battle over billboards

Gillian Farquhar

BENSON & HEDGES' faces legal challenge over allegedly illegal billboard advertising, 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 contain all legal elements 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 Association had done nothing to ensure that tobacco companies comply with the law and it is one of their functions to ensure that all advertising is legal.

But the ASA said it 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, it said.

South African Broadcasting Corporation and radio stations were served with letters on behalf of the National Council Against Smoking, asking them to remove the advertisements. The advertising manager of National Magazines Limited (Natalmag) Henry van Rensburg argued that legislation permitting advertising for tobacco products could cause some advertising agencies to shut down as tobacco advertising formed a substantial portion of their annual revenue. Although economically detrimental, Van Rensburg said restrictions on tobacco advertising were part of a global trend and were inevitable.

Natalmag therefore regarded tobacco advertising as a "voluntary" source of revenue and would not object to it in its forecasts of projected advertising turnover. At the time of going to press, the relevant health officials had not responded regarding the state of legislation to ban tobacco advertising that the director of the National Council Against Smoking, Yusuf Salogre, 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 pressuring for legislation placing a total ban on tobacco advertising, in line with the World Health Organization'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 Salogre. "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 $500-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 ad revenue.

However, Dockin discounted Salogre's tax proposal as a viable solution, saying it was based on mac-
Smokers don’t heed warning

By McKeed Kotolo

A RECENT survey conducted by Technakoo 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 showed that even if 99 percent of the total number of these 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 for 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 that smoking was just a habit, 37 percent smoked for pleasure, 16 percent for stress. A total of 56 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 had 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.
Tobacco Institute Says Ban Attacks Freedom of Choice
Tobacco Board is dissolved

The Tobacco Board, which was established to regulate the marketing of tobacco, has been dissolved. The National Tobacco Board, set up to regulate the industry, has been wound up. The Board will continue to operate until the new arrangements are made. The Board had been established to ensure that the tobacco industry was managed in a fair manner. The permanent secretariat of the Board will continue to operate until a new arrangement is made.
Higher duty on tobacco urged

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 "quandary", 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 2,500 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.

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 "aspiring young liberal democrats" saw DP leader Tony Leon smoking; "revolutionary democrats" saw Transport Minister Mac Maharaj smoking; and "aspiring young Nationalists see FW de Klerk."
Tax tobacco
to fund health,
urges Zuma

SA excise duties half that of
other countries, Parliament told

Financial Minister Trevor Manuel should
increase excise duty
on tobacco and the revenue raised should be
devoted 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 in-
crease 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 an-
swer 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 con-
vincing his colleague Ally –
a heavy chain-smoker – to
kick the habit, and said
Zuma should urge Trans-
port Minister Mac Maharaj
to do the same.
Zuma also endorsed
Cassim’s call to ban smok-
ing in most areas of Parlia-
ment.
Speaker Rene Cenguvala
said Parliament’s rules
committee was discussing
the issue, and that the mat-
ter would come up before
parliamentarians soon.
Asmal says dagga has high potential

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 bug 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 work or 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 use 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

Tobacco firms warned

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 not 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 - Reuters.
Tough-talking Zuma threatens to ban all cigarette adverts

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 spend on cigarette and tobacco products is R150-million, according to the executive director of the National Council Against Smoking, Yusuf 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 Mass, 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 to the city centre was in clear contravention of the rules. The board 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 Boitha.

“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.
WHERE THERE'S SMOKE THERE'S IRE

Zuma tackles tobacco giants

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.

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 Yusuf 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 be faced 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 Grifiths, 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 Knoetee said the company would respond today after it had scrutinised the report.

Imperial Tobacco could not be reached for comment — Political Staff
By CAS St Leger

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 R45097 billion a year to South Africa on which 200000 people depend for their livelihoods and which spends about R159-million a year on advertising.

Today's outspoken '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 accusations 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 R40000 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 R26-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, linking 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.

These 'enormous' included importing cigarettes without health warnings, pasting 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 Hloagwane, said Rupert's letter would be attended to tomorrow.
Tobacco boss hits out at Zuma

NATIONAL

36 SOMWAN

31/10/1996
Zuma, Rupert trade shots over cigarette ads

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 Settel 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,” he said.

“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, RJ 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 written to 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 orders 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.
The registration of a strain of non-aerial crop will put South Africa in line with the international trend that recognises this variety as an

"AGASA to gain respectability at last - as a valuable cash crop?"

Dagga
Zuma’s ‘smoke signals’ out today

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 Settle of the University of the Witwatersrand, supported Zuma’s call, saying that all cigarette advertising should be banned regardless.

“Whatever matters is that smoking has become a plague which is killing between two and three million people every year,” he said.

Settle 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 Yusuf 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

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 85.4 percent of them.
Zuma set to act on tobacco ads

Dispensing ban averted.

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.
Investigation launched to blitz ghost workers

Farouk Chothia

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 Thembalina, 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 Steynhan

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 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.

GB 22/10/96
Zuma cites WHO in fight against tobacco industry

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

HEALTH Minister Dr Nkosazana Zuma luf 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 flooded advertising regulations. — Political Staff, Sapa
Tobacco stocks survive the heat

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 favour today after Zuma issued another statement shortly after the market closed, repeating her threat to pursue banning tobacco advertising and hiking 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 surplus 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," 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.
SA cigarettes (198)
exported – then
smuggled back

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 staff 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

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 Soefel and executive director Yusuf Saloojee said they could substantiate numerous cases where the health warnings 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 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 chef 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
Health

to protect
up ways
Call to step

Council comes out smoking

Ad ban "a responsible policy"

By James Shaw

The Council’s decision to ban advertisements for cigarettes is a responsible step towards reducing smoking and improving public health. This policy is supported by 72% of residents, according to a recent survey.

Smuggling and health regulations challenged

Reformists' statements about cigarette

Medical Commissioner

By John Smith

The ban is expected to reduce illegal sales, which have increased in recent years. The council also plans to introduce a tax on cigarettes to further discourage smoking.

The government has been criticized for not doing enough to combat the epidemic of tobacco use. Critics argue that the council’s actions are a necessary step towards reducing the harms caused by smoking.

The ban is expected to come into effect on January 1, 2023, and will be enforced by local authorities.

The Council’s decision is a positive step towards protecting public health and reducing the harms caused by smoking.
US findings fuel SA 'tobacco war'

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 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 Philip Morris and R.J. Reynolds fell last Friday, after news of the study was released.
Tobacco lobby may have met its match

Battle-scarred Zuma has some strong support in her Health Ministry's latest war, reports

Stefaan Brümmer

HEALTH Minister Nkosazana Zuma may have a reputation for tilting at windmills but for once her weapon — the fabulous, 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 tobacco companies were fining 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 against tobacco products 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 Ruchemont ranked fourth on the JSE (after Anglo American, De Beers and South African Breweries). Both are controlled by the Rupert/Herzog dynasty, headed by Rembrandt founder Anton Rupert — one of the select group of business men who serve on President Nelson Mandela's "Brethren" advisory group. Ruchemont boasted a R26.7-billion capitalisation last year (Rembrandt R18.3-billion) and a pre-tax profit of R4.6-billion (Rembrandt R1.4-billion)

Stockbroking analyst Carol Oosthuizen was quoted this week as saying Rembrandt/Ruchemont tobacco associate, the Rothmans Group, generated R35.2-billion in excise duties worldwide. "This is roughly 25% of this country's Budget. If you were to cut this figure out of current 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 reached 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."

However, a considerable body of evidence appears to contradict much of what Rupert said — and which appears to support Zuma's argument that the best way to decrease smuggling is to discourage new smokers, especially teenagers, by banning advertising and further increasing excise taxes on tobacco products.

Around 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 1990 cigarette excise rates of 30% of retail value compares unfavourably with, for example, Zimbabwe's 50%, the United Kingdom's 79%, 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 R820-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 computers, 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 tax rates 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 and 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 fit at all. At night, 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 police spokesman 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

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
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 stablemate 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, MedClinic 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 R48,25 a share.
Advertising ban will curb free choice, says tobacco industry

BY NORMAN CHANDLER
Pretoria Bureau

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.
Tobacco expected to fire Rembrandt profit

Tobacco profit will once again fire robust earnings growth at the Rembrandt Group, which has been hampered 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 162.5c, with consensus at 161c, 26 percent up on last year's 128c. The company declared an interim dividend of 29.5c in August, up 26 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, Leachars & Hepburn, Rainbow's parent Rembrandt owns 82.9 percent of Hunt — Reuter, Johannesburg (198)
Rupert plans to tune in to yet more pay television

Rembrandt comes out smoking in half-year results

Marc Hamlins

The Guardian

(9) CPR 312/1986
Remgro lights up as profits roar ahead (198)

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 former 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 R(456.4) million and its income from the former southern African tobacco interests for the comparable period last year amounted to R34.9 million.

For the six months under review, Rembrandt’s results showed a 36.5 percent increase in net earnings from 129.0 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 R76-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.
MANUF—TOBACCO
1997
Smokers hit with 'unfair' excise hike

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, Job Groeneveld, 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 Mpumulanga cigarettes are going for 90 cents per packet which people will buy.

"If this trend is sustained, it could spell disaster for the industry," said Groeneveld.
Companies say Manuel ignored tobacco warning

Finance Minister Trevor Manuel had ignored repeated warnings that excessive taxes and 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 53% 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 pernicious effects that exceedingly high rates of duty have on behavour".

"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 expanse of cheaper contraband cigarettes flooding the local market."
**COMMENT & ANALYSIS**

**Increased tobacco duty in focus**

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 that 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 Dlamini-Zuma's stated preference for a ban on all cigarette advertising, the introduction of health warnings on cigarette packages and higher customs and excise duties on tobacco products as a signal of solidarity with other anti-smoking governments.

Between 1994 and 1998, government imposed higher duties on cigarettes — a move that resulted in the increase of VAT on cigarettes in SA rising to 14% and excise duties. The 1997/98 Parliament raised the excise duty on a pack of cigarettes to R2.93, a 39.9% increase over the 1996/97 duty.

Meanwhile, customs and excise figures show a 5.4% decline in legitimate cigarette sales between March 1994 and February 1995 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 3.5 million in 1994 to about 8 million last year. The figures also show that roughly the number of smokers, but also the number of cigarettes consumed, 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 'illicit' cigarettes with contraband.

The industry warns that Can-

sa's attempts to curb tobacco consumption are bearing fruit as they have the ability to control the flow of illegal cigarettes and smuggled tobacco sales also likely to be affected by illegal trade.

The economic "take-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.

"As with the excise duty, the tobacco industry claims it 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."

"In 1980 prices, the real price of a packet in 1971 was about R2.88. In 1994 this had declined to R2.03 after a rise of R1.48 in 1991."

The industry has levied critical reviews on the adequacy of tobacco control, and the problems with enforcement of health standards have been highlighted.

"The key issue in the Canadian experience is not that government last year revenue because of increased smuggling, but that it lost revenue because of reduced consumption. That reduction in cigarette consumption vandicates implementing higher taxes," he says.

On government's move in 1998 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 ban smoking is dominated by various factors.

"The tobacco company officials say as it is difficult to see how advertising in a well established market could have the effect of curbing smoking rates, the tobacco industry official says there is no real evidence that advertising has a positive influence on smoking rates."

"In contrast with the US tobacco industry, which uses advertising to encourage smoking, the tobacco industry in SA uses advertising to discourage smoking."

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Rembrandt earnings expected to dazzle

Cape Town — Rembrandt looks set for a soaring second-half dividend jump 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 62,64c. 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 20 percent growth in earnings to R2,70 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,"

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 8 percent, which will be helped by a knock 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
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, it is now contributing more than 50% of net income. It will want to invest in markets where tobacco sales are rising such as the Far East 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 the cash resources to fund international acquisitions are good. Depending on how the much-specculated-about black empowerment deal is structured, with Gold Fields, Rembrandt's cash coffers could be filled further. Rembrandt has a 40% stake in GPASA Holdings, Gold Fields' holding company."

(1997) ST(BR) 9/2
The hypocrisy about tobacco

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 Greensboro, 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 housewife 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 flourished in the face of one overwhelming and persuasive argument: the people whose health was affected by cigarettes choose to smoke, 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 to do any exercise 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 mines 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 allowed out such highbrow 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-starved 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 eagerly eyed by politicians 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  

Ingrid Salgado  

United Tobacco Company lifted attributable income 32% to R209m for the year to end-December, despite an 18% increase in excise duty last year and reduced volumes. Share earnings rose 32% to 34c (26c). A final dividend of 11c was declared, raising the total dividend 41% to 17c (12c). 

MD Steven Jurgens said at the weekend that although turnover increased 7% to R388m (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 R20m (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 38% to R5.5m (R9.7m). 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 R2m for the year to be financed through earnings and liquid resources.
SA warned about the dangers of smoking

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.

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 Nghom the 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

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 23c 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 Sue and Special Lights 100, and Flavers 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'

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&RTobacco is vice-chairman. —Sapa
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 Venster, 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

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 23 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 1995 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 advertisements 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 motor-cycle in the middle of a desert -- with nary a cigarette package in sight.

"The motorcycle 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 $30 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 curtailing 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.

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Reuters
High excise duty threat to farmworkers

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 facilitate 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 subset 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 Ian 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 unprecedent 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 Cemida, 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

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 success in substantially raising 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 crucial for the Canadian tobacco companies to segment 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 feared 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 taxes.

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 Canadian-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 Hlungwane 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 Hlungwane 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.

Hlungwane said Zuma wanted 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 health of both men and women," Hlungwane said.

He said tobacco industry should stop targeting women and children in its marketing campaigns and agreed 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 it admitted that at least 30 years ago the nicotine wasn't 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

MARCIA KLEIN

We'll encourage SA smokers to start litigation.

Some high-ranking lawyers have indicated they are looking at test cases

Local companies, Yussuf Scolaro, executive director of the National Council Against Smoking, says Liggett's description of the situation is not accurate. He says the industry's response to the government's suggestion to reduce smoking is to reduce the amount of nicotine in cigarettes. He also says the industry's argument that reducing nicotine would reduce smoking is not true.

A statement from South-

American Tobacco Haus,
which holds the major litiga-
tion interests of the cigare-
tte companies, said it was not involved in the legal proceedings and that it would not fight any legal action that might arise.

By the time this story went to press, it was not clear if the companies would appeal the decision or if they would accept the ruling.

The South African Tobacco Association said it would appeal the decision.

The Tobacco Industry Council of South Africa said it would not comment on the decision.

The American Medical Association said it was disappointed but would respect the court's decision.

The World Health Organization said it was concerned about the decision but would not comment on the case.

The decision is expected to have a significant impact on the tobacco industry in South Africa.

Where there's smoke, there's fire.
Exports boost tobacco farmers

Louise Cooke  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 1996 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

Rembrandt locks out striking workers after 'unruly behaviour and intimidation'

About 600 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 Madikane, 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 249 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 at Berg River 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

Two top American-style brands launched in Cape

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 Kozo Ogita, area manager for Europe of Japan Tobacco International.

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.
Blowing smoke rings around the opposition

Advertising industry will feel pinch as Paul Revere and Peter Stuyvesant “coffers” dry up

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 (Unico) 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.

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 a 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 anti-tobacco 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 Unico) 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.”

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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 Berman, 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.

Berman says he “doesn’t know how they will allot extra flights, if they get them. That’s their business.”

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FINANCIAL MAIL - MAY 23 - 1997
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 on the programme on bail administration in terms of the re-engineering of the criminal justice system, is listed on the National Crime Prevention Strategy 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?

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 decrease 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 is 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 on 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.

(c) Legislation is pending to compel courts to refuse bail in certain serious cases where 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 so 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?

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. These 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 trial prisoners
- Support to SDC Co-ordinating Committee
- Secure care facilities
- Training of officers
- 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 Committee on 2 June 1997.

Legislation on smoking

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?

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 Organization 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 handicapped 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?

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-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?

The MINISTER FOR SAFETY AND SECURITY

(1) Yes

(a) Not applicable

(b) Investigations have been completed in all cases.

(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

*9 Mr A J LEON 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.

The MINISTER FOR 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.
Fresh air a fag for forlorn and shivering city smokers

Mar 31st 1997

By Cecilia Russell

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. The 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 resources officer John Verster said his bank had banned smoking 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

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.

"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
Puffers barely have a leg to stand on

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 Health 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.

Saloojee 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

Bonile Ngqiyaza

THE Cancer Association of SA (Canasa) 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, Spoer & 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 Canasa to expose the misleading nature of cigarette advertising will be stifled,” she said.

An attorney for the tobacco company, Remard Michau, could not be reached for comment.
Tobacco firm's court threat over radio ad

Cancer Association under fire

Jenny Wall
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 48 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."
Anti-smoking ad has tobacco firm fuming

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 Ruggio Tobacco Corporation of New York threatened the Cancer Association of SA with legal action if it did not withdraw an advert which Ruggio 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 Ruggio 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.
sociated with the rich and famous. These old established firms produce the most famous, if not the best, luxury branded goods in the world.

Richeumont, 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 Richeumont'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 Richeumont's media interests, formerly held by Net hold, with those of Canal+.

The merger has created Europe's largest pay-TV operator in which Richeumont holds an effective 15%.

The merger was concluded only after the financial year-end. Consequently, the figures include Net hold'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

CA-Ratings announces that it has completed an in-depth credit rating of African Bank with the assistance of management, and has assigned the following rating symbol:

Short-term debt: B

indicating that the bank's capacity to meet its short-term obligations in South African Rand within South Africa is classed as satisfactory.

The full report is available from CA-Ratings, tel (011) 442-4233, at normal rates, and is provided to subscribers at no extra charge.
On top of Old Smoky

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, pharmaceuticals, life assurance, medical services, mining, petrochemicals, pulp and paper, cellular and food, wine and spirits and other trademark products
- **CONTROL**: Rupert and Hertzog families
- **CHAIRMAN**: Rupert MD, M H Visser
- **CAPITAL STRUCTURE**: 42.3m 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

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* 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, US-based Rothmans International (R) lifted tobacco sales revenue by 4% to £3.3bn (R23.6bn at an average exchange rate of R1=R1.74)

The result in constant money terms was actually better. The strength of sterling held back earnings growth.

Remgro in effect holds 33.3% of RHN, now the fourth largest international tobacco company. Thus, 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 49.9% rise in consolidated earnings. This was influenced by exceptional income of R1.5c a share, mainly capital surpluses on disposal of long-term investments.

Results are not strictly comparable. Turnover and operating and equity accounted income have been significantly influenced by the transfer of SA tobacco interests to RIB Rainbow Chicken, previously equity accounted, is now consolidated. And HL&H Timber was sold on April 1, 1996.

But it is evident from the segmented 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%. 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.

Interest 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 lift earnings by 11.6%. This embraces treasury, group services and portfolio management of offshore assets. In addition, it holds 49.9% of MedClinic, 27% of Persel, 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.

**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 under-performing businesses. There were R101m restructuring and retraining costs, primarily in Premier Foods and CNA Gallo.

Premier Foods hiked headline earnings.
‘Sport is for health, tobacco is for death’

Unlikely 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 (Bafawu) 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.

Bafawu 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 Setsel, 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 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 R750-million a year – Staff Reporter
Analysts say the move relates to cash conservation ahead of offshore manoeuvres

Rembrandt raises dividend

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 stablemate, 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 SMG 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 new year.

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

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 R1,49 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 R15,66 million and short-term debt of R8,2 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, the company has been involved in legal battles with the state-owned South African Forestry Company and the water amenities and forestry department.

Tucker said he believed Yorkcor would meet or beat most targets. The company forecast full-year earnings of 23c, a figure he said should be more than matched.

He said earnings and gearing would determine the company's decision on dividends.

□ Business Watch
Batsa signs up distribution partner in Soweto

JOHANNESBURG — British American Tobacco South Africa (Batsa) yesterday signed a distribution partnership with Sunt 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.

Sunt M Wholesalers 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 Sunt M Wholesalers.

"Should this partnership model prove to be successful, British American Tobacco will consider rolling it out to other areas and therefore creating further channels for distribution and empowerment," said Steven Jurgens, the managing director of Batsa.

Mdalala, the managing director of the wholesaler, said the partnership would bolster his market penetration and offered training opportunities for his employees.

It was planned to create job opportunities and could assist in reducing crime and poverty, he said.

"We should look at the development spurs off and we as business people should stop the crime wave by refusing to buy stolen items and expose criminal dealings."

Mdalala, who has been in business for 20 years, has interests in soft drinks, liquor, retailing, construction, earth-moving, 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.
Official gives anti-tobacco sponsorship lobby a boost

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.

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," she said.

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

Pule Molebelele

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 office 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 pithull terrorist 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 robbers 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 revamping of the Criminal Procedure Act — were procedures aimed at streamlining the industry and not inhibiting it.
Stakeholders walk out of tobacco forum

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 Dinglera has also left, but MD Andre Oosthuizen has refused to comment.
Marlboro man hesitates on the border

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 $500m payment to Philip Morris for a 32% stake in Rothmans. The US company now questions these rights.

But court documents obtained by the New York Times, show that the central, unpublished 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.

80 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, Poppo 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

Marc Hasenfuss

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 R2,05, with the dividend — already declared several months ago — increased 16 percent to 33,91c.

Carol Oosthuizen, the head of research at SMK Securities, said yesterday that the interim performance suggested full-year earnings of around R4,50, 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 Flex) 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 R65 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 R65 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-Clinc, Perskor and interest from Rembrandt’s cash pile) increasing its contribution 25 percent to R156 million.

Business Watch, Page 16
CSS figures show 20% decline in retail cigarette sales

Tobacco losing sales war

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 centre-piece 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 at 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 38 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 (6.1 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

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, Dingers and Tobacco Services walked out of the forum earlier this year.

SA's largest tobacco producer, MTV Co-operative, said yesterday it would join forces with BA Tobacco to help speed up reform of the industry.

MTV Co-operative 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."

MTV 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.

MTV 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

Health Minister plans legislation that will stop tobacco advertising

By Mokgadi Peja

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 Dlamini-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 sports and cultural activities.

The workshop recommended that the 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 workplace and public places.

Zuma said research showed that many young 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 ‘cool’ to smoke,” she said.

Zuma said the health warnings 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, but down by change to a lighter brand. While 38 percent of non-smokers 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.”