# RICHEMONT

Compagnie Financière Richemont AG, Zug
Richemont SA, Luxembourg

Annual Report 1989

Dieser Jahresbericht ist auch in Deutsch erhältlich.
Ce rapport annuel est également disponible en français.

# Contents

# COMPANY INFORMATION

## Compagnie Financière Richemont AG

| | | |
|---|---|---|
| Board of Directors: | Nikolaus Senn | Chairman |
| | Jean-Paul Aeschimann | Deputy Chairman |
| | Johann Rupert | Managing Director |
| | Jan du Plessis | Finance Director |
| | Max Ehrbar | |
| | Joseph Kanoui | Executive Director |
| | Matthys Roux | |
| Auditors: | Price Waterhouse AG<br>Zurich | |
| Registered office: | Weinbergstrasse 5<br>6300 Zug<br>Switzerland | |
| Company secretary: | Alan Grieve | |

## Richemont SA

| | | |
|---|---|---|
| Board of Directors: | Johann Rupert | Executive Chairman |
| | Joseph Kanoui | Managing Director |
| | Jean-Paul Aeschimann | |
| | Jan du Plessis | Finance Director |
| | René Gerber | |
| | Eloy Michotte | Executive Director |
| | Alan Quasha | |
| | Howard Tanner | Executive Director |
| Auditors: | Price Waterhouse<br>Luxembourg | |
| Registered office: | 24–26 Avenue de la Liberté<br>1930 Luxembourg | |
| Company secretary: | Alan Grieve | |

# FINANCIAL HIGHLIGHTS

| | 1989<br>£ | 1988<br>Pro forma<br>£ |
|---|---|---|
| Unitholders' funds | 828.5 m | 730.0 m |
| Profit before taxation | 161.3 m | 118.1 m |
| Net profit before extraordinary item | 106.5 m | 77.0 m |
| Net profit after extraordinary item | 109.8 m | 77.0 m |
| Net assets per unit | 1 442.80 | 1 271.30 |
| Earnings per unit (before extraordinary item) | 185.40 | 134.10 |
| Dividend per unit | 33.75 | – |

# LETTER TO UNITHOLDERS

Dear Unitholders, Zug, July 7, 1989

In September 1988, Richemont was transformed from a private company based in Luxembourg into a publicly held Swiss corporation and in this, the first annual report, we should like to welcome you as investors and to present the financial results of the Group together with those of Compagnie Financière Richemont AG and Richemont SA.

Following its flotation on the Swiss stock exchanges, Richemont is now, in terms of market capitalisation, the fourteenth largest publicly quoted Swiss company. In Switzerland itself, Richemont owns and controls a number of companies – the oldest, Baume & Mercier, dating back to 1830 – which directly and indirectly employ over 5000 people and generate exports in excess of SFr 1.0 billion.

In addition, Richemont is widely diversified internationally, with all its subsidiary and associated companies established in Europe, North America and the Asia-Pacific region. With a balance of activities offering stable growth in terms of both cash flow and net assets, it is well placed to take advantage of the opportunities offered by the increasing globalisation of commercial and financial markets.

The past year was characterised by good progress in all existing areas of business and by some new departures, most notably in North America. The results have been very satisfactory, with consolidated net profit for the year before extraordinary items amounting to £ 106.5 million. We are, therefore, pleased to announce that the initial dividend to be paid to unitholders of Richemont will be £ 33.75 per unit.

On your behalf and on behalf of the Boards of Directors, we wish to thank all employees, partners and associates who have contributed to this year's achievements.

Johann P. Rupert.

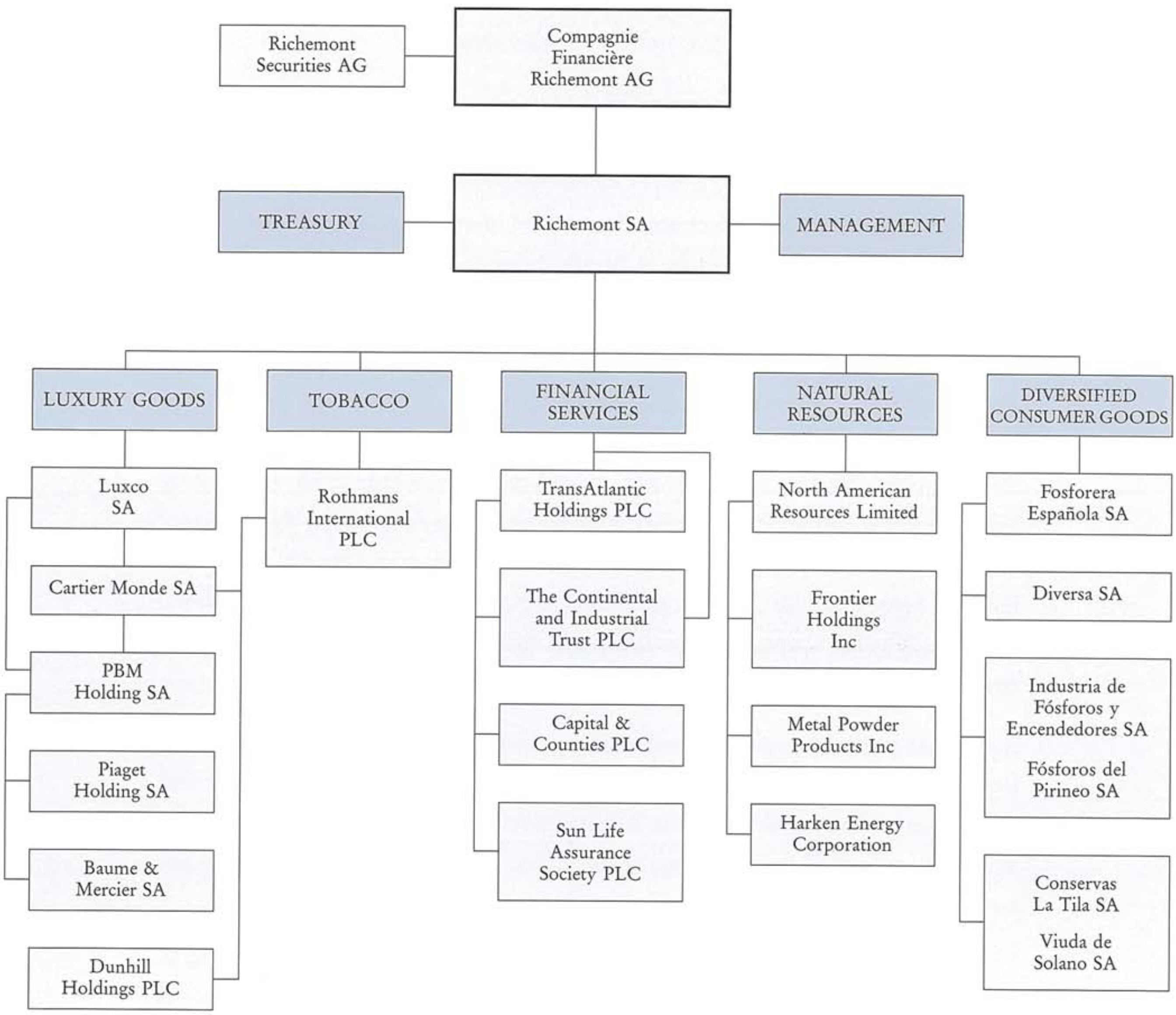
Nikolaus Senn
Chairman
Compagnie Financière Richemont AG

Johann Rupert
Chairman
Richemont SA

# PRINCIPAL GROUP COMPANIES

The principal companies in the Group, as well as in each case the effective interest in their equity which is attributable to Compagnie Financière Richemont AG, are set out below. For the sake of clarity, intermediate companies which have no operating role have been omitted from this summary.

| Name of company | Country of incorporation | Class of share capital | Issued share capital (000's) | | Effective interest |
|---|---|---|---|---|---|
| Richemont SA | Luxembourg | Ordinary shares | £ | 143 550 | 100.0% |
| Business Control SA | Switzerland | Ordinary shares | SFr | 500 | 100.0% |
| Richemont International Ltd | United Kingdom | Ordinary shares | £ | 50 | 100.0% |
| Richemont Securities AG | Switzerland | Ordinary shares | SFr | 100 | 100.0% |
| Luxco SA | Luxembourg | Ordinary shares | $ | 500 000 | 90.3% |
| Rothmans International PLC | United Kingdom | Ordinary shares | £ | 2 282 | 99.9% |
| | | 'B' Ordinary shares | £ | 37 078 | 30.0% |
| | | Cumulative preference shares | £ | 300 | 100.0% |
| TransAtlantic Holdings PLC | United Kingdom | Ordinary shares | £ | 55 659 | 10.7% |
| | | Preferred ordinary shares | £ | 30 611 | 50.8% |
| The Continental and Industrial Trust PLC | United Kingdom | Ordinary shares | £ | 4 235 | 20.2% |
| | | Cumulative preference shares | £ | 1 000 | – |
| North American Resources Ltd | British Virgin Islands | Common shares | $ | 50 000 | 50.0% |
| | | Preferred shares | $ | 50 000 | 100.0% |
| Fosforera Española SA | Spain | Ordinary shares | Ptas | 1 416 962 | 25.8% |


Richemont Securities AG
Compagnie Financière Richemont AG
TREASURY
Richemont SA
MANAGEMENT
LUXURY GOODS
TOBACCO
FINANCIAL SERVICES
NATURAL RESOURCES
DIVERSIFIED CONSUMER GOODS
Luxco SA
Cartier Monde SA
PBM Holding SA
Piaget Holding SA
Baume & Mercier SA
Dunhill Holdings PLC
Rothmans International PLC
TransAtlantic Holdings PLC
The Continental and Industrial Trust PLC
Capital & Counties PLC
Sun Life Assurance Society PLC
North American Resources Limited
Frontier Holdings Inc
Metal Powder Products Inc
Harken Energy Corporation
Fosforera Española SA
Diversa SA
Industria de Fósforos y Encendedores SA
Fósforos del Pirineo SA
Conservas La Tila SA
Viuda de Solano SA

# REVIEW OF OPERATIONS

## Introduction

As a result of the acquisition of Richemont SA in September 1988, Compagnie Financière Richemont AG, based in Switzerland, is the parent company of an international industrial and financial group. Compagnie Financière Richemont AG and Richemont SA (together with their subsidiary companies "Richemont" or the "Group") comprise companies operating in five specific business sectors.

Luxco SA and Rothmans International PLC both operate in the field of luxury goods and, in the case of Rothmans International only, in the tobacco industry. The activities of TransAtlantic Holdings PLC and The Continental and Industrial Trust PLC are concentrated in the financial services area. In the field of natural resources, Richemont's investments are located principally in North America and are held through North American Resources Limited. In Spain, Fosforera Española SA is active in the consumer goods sector.

The executive management group is headed by Mr. Johann Rupert, Managing Director of Compagnie Financière Richemont AG and the Executive Chairman of Richemont SA. Mr. Joseph Kanoui, Chairman of Luxco SA and Cartier Monde SA, has recently been appointed Managing Director of Richemont SA, and reports to the Executive Chairman. The other members of the Executive Committee are Mr. Jan du Plessis, Finance Director, and Mr. Eloy Michotte and Mr. Howard Tanner, Executive Directors. Mr. Alan Quasha, a non-executive director of Richemont SA, is responsible for the business and investment activities of North American Resources Limited.

Richemont provides managerial and advisory services to group companies through Business Control SA and Richemont International Limited, which are wholly-owned subsidiaries of Compagnie Financière Richemont AG. Richemont Securities AG, also a wholly-owned subsidiary of Compagnie Financière Richemont AG, provides securities transfer and depositary services to unitholders.

The following pages contain a brief review of Richemont's main areas of activity. The financial information presented in this review regarding the results and financial position of associated companies has been taken directly from the financial statements of those companies. The information presented therefore relates, in each case, to the entity as a whole rather than to the Group's attributable interest and does not take into account adjustments made by Richemont to reflect the Group's accounting policies.

## Luxury goods

Richemont's interests in the fields of luxury goods are held through Luxco and Rothmans International. The principal operating companies are Cartier Monde SA, Piaget Holding SA and Baume & Mercier SA, which are private companies, and Dunhill Holdings PLC, which is quoted on the London Stock Exchange.

Founded in Paris in 1847, Cartier has acquired a unique reputation for its high jewellery, exclusive fashion accessories and for excellent service to clients. Over the years, it has maintained these standards of excellence, expanded its range of products and developed its distribution network. Today the original shops opened by the Cartier brothers in Rue de la Paix, Paris, Bond Street, London and Fifth Avenue, New York continue to sell high jewellery. In a further 126 Cartier boutiques and through selected concessionaires located in 124 countries, Cartier markets an exclusive range of jewellery, luxury watches, lighters, writing instruments, leather goods, spectacle frames and perfumes, all designed and manufactured to exacting specifications. Cartier also designs and distributes, under a worldwide licence, Yves Saint Laurent and Ferrari Formula accessories.

Since their acquisition in May 1988, Piaget and Baume & Mercier, leading companies in the Swiss luxury watch industry, have retained their individuality and tradition. Piaget is the world's leading manufacturer of all-gold watches and Baume & Mercier a traditional manufacturer of watches of elegance, distinction and contemporary appeal.

Together Luxco and Rothmans International hold directly and indirectly 99.0% of Cartier. Luxco also holds 25.0% and Cartier 75.0% of PBM Holding SA which, in turn, has controlling interests in Piaget and Baume & Mercier. In the period under review Cartier, Piaget and Baume & Mercier have generated aggregate sales in excess of $ 800 million and operating profits of $ 178 million.

Dunhill Holdings is 55.3% owned by Rothmans International and comprises three businesses. Based in London, Alfred Dunhill markets a full range of luxury consumer goods for men. Montblanc is a highly successful, German manufacturer of quality writing instruments. Chloé is a French fashion and perfume house. All three companies have in the year under review produced very satisfactory results. Dunhill Holdings has reported a net profit of £ 28 million, up 30% on the profit of the previous year, on a turnover of £ 194 million.

Overall, Richemont's interests in the field of luxury goods have demonstrated sustained growth, underpinned as they are by some of the most valuable trademarks in the world. Luxco continues to promote the development of trademarks, either acquired or established, in the luxury goods and related fields.

## Tobacco

Richemont holds a 34.1% equity interest and 43.8% voting interest in Rothmans International, the shares of which are quoted on the London Stock Exchange.

Excluding state monopolies, Rothmans International is the fourth largest tobacco company in the world. It was formed in 1972 through a series of mergers of a number of tobacco companies established in Europe and the Asia-Pacific region. Today, excluding its activities in the luxury goods market, Rothmans International comprises some thirteen main operating companies, of which seven are subsidiary and six are associated companies.

Faced with sustained adverse publicity and seemingly ever increasing fiscal charges, the tobacco industry has shown remarkable resilience. Tobacco consumption in the mature markets of Western Europe and North America is static to declining at a slow rate, but in other markets around the world, it is still increasing. Rothmans International is adapting itself to these structural changes through several marketing and organisational initiatives.

In the European Economic Community, Rothmans International is facing the challenge arising from the commercial and fiscal integration implied by the creation of a single European market in 1992. It is responding to this challenge by seeking to exploit the opportunities stemming from the proposed tax harmonisation and the restructuring of state monopolies. Major business opportunities are also opening up in Eastern Europe, in particular by way of joint venture and brand licencing, and in the Asia-Pacific region.

In the year ended March 31, 1989 aggregated operating profits of Rothmans International attributable to its tobacco activities increased from £ 276 million to £ 289 million. This was achieved on net sales revenue, excluding taxes and duties, of £ 1 659 million.

## Financial services

Richemont's interests in the financial services sector are primarily represented by its shareholdings in TransAtlantic Holdings PLC and The Continental and Industrial Trust PLC.

TransAtlantic is an investment holding company incorporated in the United Kingdom, the purpose of which is to make strategic long term investments in the insurance and real estate sectors and in other fields related to the financial services industry. At December 31, 1988 total shareholders' funds exceeded £ 1 billion with net profit for the year amounting to £ 27 million.

TransAtlantic has two subsidiaries, The Continental and Industrial Trust PLC, a United Kingdom approved investment trust, and Capital & Counties PLC, a company engaged in property investment and development. TransAtlantic also holds a strategic interest of 29.8% in Sun Life Assurance Society PLC, a leading life assurer operating principally in the United Kingdom. The shares of Continental, Capital & Counties and Sun Life are all quoted on the London Stock Exchange, whilst the shares of TransAtlantic are quoted on the Luxembourg Stock Exchange.

Continental, in which Richemont separately has a direct shareholding of 20.2%, has during the period under review followed a cautious policy of capital preservation and income growth. Investments are made in a small number of high quality companies operating predominantly in the United Kingdom in the financial services sector. Continental has achieved a net profit of £ 9 million on a capital and reserve base of £ 155 million.

Capital & Counties has had a very active year during 1988. The major focus of its activities has been on developing its extensive retail shopping centre programme and securing the necessary financial resources to continue the process of improving the quality, extent and geographic spread of its property portfolio. Results have been excellent with net profit of £ 31 million, a 69% increase over net profit in the previous year. In the same period total assets have increased by 42% to £ 1.1 billion.

## Natural resources

The incorporation of North American Resources, which holds the Group's interests in the field of natural resources, took effect on March 31, 1988. As a joint venture between Richemont and the Quasha family, it was formed to rationalise and manage the assets contributed by its partners and to pursue new investment opportunities.

North American Resources currently has interests in companies active in the refining and marketing of petroleum products, the exploration for and production of oil and gas, the manufacture of powdered metal products and the production of timber and related forest products. It is actively pursuing investment opportunities in companies that are operating in either unique market niches or in industrial sectors which are consolidating and that can benefit from North American Resources' financial and operational restructuring expertise.

North American Resources has had excellent results for the period under review with net profit exceeding $ 21 million on net sales revenue of $ 270 million and all major operational areas performing well. Particularly satisfactory is the turnaround experienced at Frontier Holdings Inc where refining operations produced some $ 14 million profit in the current year. This resulted primarily from the efforts of the new management team, which was put in place at the beginning of the year, as well as from structural changes presently taking place in the refinery business in the United States of America.

## Diversified consumer goods

Founded in 1956, Fosforera has been under the joint control of the Fierro family and Richemont since September 1988 when Richemont acquired its interest on the occasion of a substantial rights issue. The shares of Fosforera are quoted on the Madrid and Barcelona Stock Exchanges.

Up until early 1988, Fosforera was primarily involved in the manufacture and distribution of matches and lighters in Spain and Portugal. In December 1988 it acquired full ownership of Fósforos del Pirineo SA, a match producer, and of Diversa SA, a distribution company. Simultaneously, Fosforera has launched an acquisition programme in the food manufacturing industry.

Diversa now distributes the products of Fosforera's food manufacturing subsidiaries and other food products, as well as matches and lighters. Conservas La Tila SA, producing prepared meals, and Viuda de Solano SA, producing toffees and other soft sweets, were acquired in the period under review. Additional acquisitions are planned in 1989, but increased emphasis will be placed on the consolidation of competitive positions and maximisation of profitability in all operating units.

# FINANCIAL REVIEW

## Results for the year

The results of the Group for the year under review improved significantly compared with the pro forma results of the previous year, as published in the prospectus issued at the time of the public offering of Richemont units in September 1988.

Profit before tax increased by 37%, rising from £ 118.1 million to £ 161.3 million. After providing for taxation and the interests of minority shareholders, net profit before extraordinary items amounted to £ 106.5 million, reflecting an increase of 38% over the previous year's pro forma net profit of £ 77.0 million.

The increase in profits can be ascribed primarily to sustained growth in the luxury goods sector, which resulted in significantly increased sales revenue and operating profit. In North America, strong management action, as well as important structural changes in the petroleum industry, yielded very positive results. Earnings in the tobacco and financial services sectors continued to grow at a modest rate.

The net profit for the year under review attributable to unitholders of Richemont, before corporate taxes, expenses and non-recurring items at the holding company level, was derived 39% from luxury goods, 33% from tobacco products and 16% from income on net liquid funds, with the balance from the Group's other activities.

## Dividends

Earnings per unit rose from £ 134.10 to £ 185.40. The Board of Directors of Richemont SA has recommended payment of a dividend to holders of participation certificates equal to 4.5 per cent of the amount of the participation reserve, including the 1 per cent preference dividend. This will amount to a total of £ 19.4 million or £ 33.75 per participation certificate. The Board of Directors of Compagnie Financière Richemont AG has resolved to accept this recommendation and will vote accordingly at the Annual General Meeting of Richemont SA.

The Board of Directors of Compagnie Financière Richemont AG is not proposing payment of an additional dividend in respect of its own share capital as it considers it important for Compagnie Financière Richemont AG, as a newly incorporated company, to accumulate adequate reserves prior to the commencement of dividend payments.

The total dividend payable to unitholders will therefore, in the current year, amount to £ 33.75 per unit.

## Investments

During the year under review Richemont has invested an amount of £ 48.7 million, either as new investments or as additions to existing interests.

(a) An amount of SFr 47.9 million was invested by Luxco in Piaget and Baume & Mercier through the acquisition of a 25% interest in PBM Holding.
(b) In September 1988, the Group concluded an agreement with the Fierro family in terms of which it invested Ptas 2 740.4 million in Fosforera. Richemont thereby acquired an interest of 25.8% in, as well as joint control of, the company.
(c) Richemont increased its equity interest in Rothmans International by about 1%, at a cost of £ 15.3 million.
(d) Other investments amounted to £ 2.6 million.

## Unitholders' funds

Unitholders' funds at March 31, 1989 amounted to £ 828.5 million, up £ 98.5 million from the amount of £ 730.0 million which was reflected in the pro forma consolidated balance sheet at March 31, 1988. This increase is primarily attributable to the consolidated net profit for the year of £ 109.8 million, reduced by £ 17.5 million of goodwill which resulted from new investments in associated companies and which was, in accordance with the Group's accounting policy, written off in full directly against consolidated reserves.

# CONSOLIDATED FINANCIAL STATEMENTS AT

# MARCH 31, 1989

## Consolidated balance sheet at March 31, 1989

Before appropriation of retained earnings

| | Notes | 1989 £m | 1988 Pro forma £m |
|---|---|---|---|
| ASSETS | | | |
| Investments | | | |
| Investments in associated companies | 3 | 576.8 | 466.0 |
| Other long-term investments | 4 | 3.3 | 5.4 |
| | | 580.1 | 471.4 |
| Fixed assets | | 12.4 | 13.7 |
| | | 592.5 | 485.1 |
| Current assets | | | |
| Cash | | 138.1 | 194.4 |
| Marketable securities | 5 | 146.2 | 126.7 |
| Debtors | | 18.0 | 13.7 |
| | | 302.3 | 334.8 |
| | | 894.8 | 819.9 |
| CAPITAL AND RESERVES | | | |
| Unitholders' funds | | | |
| Share capital | 6 | 223.2 | 223.2 |
| Participation reserve | 7 | 430.7 | 430.7 |
| Unitholders' capital | 8 | 653.9 | 653.9 |
| Retained earnings and other reserves | 9 | 174.6 | 76.1 |
| | | 828.5 | 730.0 |
| Minority interests | 10 | 12.8 | 9.3 |
| | | 841.3 | 739.3 |
| LIABILITIES | | | |
| Long-term borrowings | 11 | 41.2 | 42.9 |
| Creditors and accrued liabilities | | 12.3 | 37.7 |
| | | 53.5 | 80.6 |
| | | 894.8 | 819.9 |

## Consolidated profit and loss account for the year ended March 31, 1989

| | Notes | 1989 £m | 1988 Pro forma £m |
|---|---|---|---|
| INCOME | | | |
| Income from associated companies | | 149.6 | 93.6 |
| Income from other investments | | 7.4 | 24.0 |
| Interest income | | 13.4 | 8.4 |
| Other income | | 2.7 | 1.6 |
| | | 173.1 | 127.6 |
| EXPENSE | | | |
| Interest expense | | 4.8 | 4.7 |
| Depreciation | | 1.6 | 1.2 |
| Other expenses | | 5.4 | 3.6 |
| | | 11.8 | 9.5 |
| PROFIT BEFORE TAXATION | | 161.3 | 118.1 |
| Taxation | | 51.2 | 41.1 |
| PROFIT AFTER TAXATION | | 110.1 | 77.0 |
| Minority interests | | 3.6 | – |
| NET PROFIT BEFORE EXTRAORDINARY ITEM | | 106.5 | 77.0 |
| Extraordinary item | 12 | 3.3 | – |
| NET PROFIT ATTRIBUTABLE TO UNITHOLDERS | 13 | 109.8 | 77.0 |
| Earnings per unit | 14 | £ 185.40 | £ 134.10 |

# Consolidated statement of source and application of funds for the year ended March 31, 1989

| | £m |
|---|---|
| **SOURCE OF FUNDS** | |
| Funds from operations | |
| Profit after taxation | 110.1 |
| Depreciation | 1.6 |
| Share of net profit before extraordinary items retained by associated companies | (73.2) |
| | 38.5 |
| Net movement in working capital | |
| Decrease in cash and marketable securities | 36.8 |
| Increase in debtors | (4.3) |
| Decrease in creditors and accrued liabilities | (25.4) |
| | 7.1 |
| | 45.6 |

| | £m |
|---|---|
| **APPLICATION OF FUNDS** | |
| Investments, net of disposals | 45.9 |
| Increase in fixed assets | 0.3 |
| Decrease in long-term liabilities | 1.7 |
| Net movement in reserves | (2.3) |
| | 45.6 |

# Notes to the consolidated accounts at March 31, 1989

## Note 1 – Basis of preparation of the financial statements

Compagnie Financière Richemont AG ("CFR"), the ultimate parent company of the Group, was formed on August 16, 1988 and, through the capital increase effected on September 20, 1988, acquired the entire issued share capital of Richemont SA, Luxembourg and Business Control SA, Geneva.

The merger of the interests which make up the Richemont group of companies, which took place at the time of the capital increase, has been regarded for accounting purposes as having taken effect on April 1, 1988. The comparative consolidated balance sheet at March 31, 1988 has been prepared on a pro forma basis to reflect that treatment. The comparative pro forma consolidated profit and loss account for the year ended March 31, 1988 has been prepared as if the principal companies constituting the Group had been owned by CFR throughout the year then ended.

## Note 2 – Summary of significant accounting policies

### (a) Accounting convention

The financial statements are prepared under the historic cost convention. The financial statements are presented in pounds sterling as it is the reporting currency of the Group's principal investments.

### (b) Basis of consolidation

The financial statements include the accounts of CFR and its subsidiaries. All companies in which CFR holds an interest of more than 50 per cent of the ordinary share capital and voting rights are accounted for as subsidiary companies. The financial statements of all subsidiary companies are drawn up at March 31 of each year. Certain minor, inactive subsidiary companies are not consolidated.

Companies in which CFR holds a long-term interest of between 20 per cent and 50 per cent are accounted for under the equity method as associated companies. Where associated companies' financial statements are not drawn up at March 31, the equity accounting adjustments are based on the latest available audited financial statements.

The results of subsidiary and associated companies are included in the financial statements as from their date of acquisition.

**(c) Foreign currencies**

Assets and liabilities denominated in foreign currencies, including investments in associated companies, are translated into pounds sterling at exchange rates ruling at the balance sheet date. For consolidation purposes, the share capital of CFR is translated from Swiss francs into pounds sterling at the historic rate. The earnings of those companies in the Group, including associated companies, whose financial statements are denominated in foreign currencies are translated into pounds sterling at average rates prevailing during the year.

All foreign exchange gains and losses, together with the Group's share of associated companies' exchange differences, are credited or charged directly to consolidated reserves.

**(d) Investments in associated companies**

Investments in associated companies are carried in the balance sheet at the Group's share of their net assets, adjusted where necessary to reflect the Group's accounting policies.

The Group's share of associated companies' net income before taxation and its share of the related taxation charge are accounted for in the consolidated profit and loss account.

The Group's share of reserve movements in associated companies are accounted for as movements in the consolidated reserves.

**(e) Other long-term investments**

Long-term investments, other than investments in associated companies, are stated at cost less amounts written off for diminutions in value which are considered to be of a permanent nature.

**(f) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets.

**(g) Goodwill**

Where subsidiary and associated companies are acquired at a cost in excess of the Group's share of their underlying net tangible assets, the excess is regarded as goodwill. Goodwill is amortised through the consolidated profit and loss account on a straight-line basis over 40 years or written off against consolidated reserves at the time of acquisition.

### (h) Trademarks

Acquisition and other costs relating to trademarks are expensed in the year in which they are incurred.

### (i) Marketable securities

Marketable securities, which comprise investments in listed shares and bonds, are stated at the lower of cost and market value.

### (j) Taxation

Provision is made in each accounting period for all taxes payable in respect of profits earned in that period. No provision is made for withholding and other taxes payable in the event that undistributed earnings of subsidiary companies are distributed, on the basis that such earnings are retained for reinvestment in the companies concerned.

## Note 3 – Investments in associated companies

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| Listed | 404.2 | 342.8 |
| Unlisted | 172.6 | 123.2 |
| | 576.8 | 466.0 |
| Market value of listed associated companies at March 31 | 724.3 | 582.0 |

## Note 4 – Other long-term investments

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| Shares in listed companies, at cost less amounts written off | – | 2.2 |
| Shares in unlisted companies, at cost less amounts written off | 3.3 | 3.2 |
| | 3.3 | 5.4 |

## Note 5 – Marketable securities

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| Investments in shares, at lower of cost and market value | 1.2 | 11.6 |
| Investments in bonds, at lower of cost and market value | 145.0 | 115.1 |
| | 146.2 | 126.7 |
| Market value at March 31 | 146.7 | 128.6 |

## Note 6 – Share Capital

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| 522 000 'A' bearer shares with a par value of SFr 1 000 each, fully paid | 202.9 | 202.9 |
| 522 000 'B' registered shares with a par value of SFr 100 each, fully paid | 20.3 | 20.3 |
| | 223.2 | 223.2 |

## Note 7 – Participation reserve

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| Reserve in respect of 574 200 participation certificates with no par value issued by Richemont SA | 430.7 | 430.7 |

## Note 8 – Unitholders' capital

In accordance with the articles of incorporation of the respective companies, the shares issued by CFR and participation certificates issued by Richemont SA have been twinned as follows:

(a) Each 'A' bearer share in CFR with a par value of SFr 1 000 is twinned with one bearer participation certificate in Richemont SA with no par value to form one 'A' unit, issued to bearer.

(b) Every ten 'B' registered shares in CFR with a par value of SFr 100 each are twinned with one registered participation certificate in Richemont SA with no par value to form one 'B' unit, issued in registered form.

The total number of units in issue is thus made up as follows:

| | |
|---|---|
| (a) 'A' bearer units, each comprising one 'A' bearer share in CFR and one bearer participation certificate in Richemont SA | 522 000 |
| (b) 'B' registered units, each comprising ten 'B' registered shares in CFR and one registered participation certificate in Richemont SA | 52 200 |
| | 574 200 |

In view of this indivisible twinning of shares and participation certificates, the participation reserve of Richemont SA is presented in the consolidated balance sheet of CFR as a component of unitholders' funds. For the same reason, information which would normally be stated on a per share basis is stated in these financial statements on a per unit basis.

| Note 9 – Retained earnings and other reserves | £m |
|---|---|
| April 1, 1988 (Pro forma) | 76.1 |
| Net profit attributable to unitholders | 109.8 |
| Share of associated companies' reserve movements: | |
| – exchange differences | (1.0) |
| – other movements | (9.7) |
| Goodwill written off | (17.5) |
| Exchange differences | 14.9 |
| Other movements | 2.0 |
| March 31, 1989 | 174.6 |

Legal reserves amounting to £ 38.5 million, which are not available for distribution, are included in this figure.

### Note 10 – Minority interests

Minority interests represent the interests of third party shareholders in a subsidiary company.

### Note 11 – Long-term borrowings

These loans bear interest at market rates and are drawn down under facilities which may be terminated by the banks concerned with not less than thirteen months' notice.

### Note 12 – Extraordinary item

This represents the Group's share of an extraordinary gain reported by an associated company.

### Note 13 – Net profit attributable to unitholders

| | 1989 £m | 1988 Pro forma £m |
|---|---|---|
| Net profit of CFR and subsidiary companies | 35.9 | 45.0 |
| Group's share of net profits retained by associated companies | 73.9 | 32.0 |
| | 109.8 | 77.0 |

### Note 14 – Earnings per unit

Earnings per unit are calculated by reference to the net profit before extraordinary items of £ 106.5 million (1988: £ 77.0 million) and 574 200 units in issue (1988: 574 200 units).

# Report of the auditors

To the Directors
Compagnie Financière Richemont AG, Zug

We have examined the consolidated balance sheet of Compagnie Financière Richemont AG, Zug and its subsidiary companies at March 31, 1989 and the consolidated profit and loss account and the consolidated statement of source and application of funds for the year then ended, as set out on pages 16 to 24. Our examination was made in accordance with generally accepted international auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Based on our examination we confirm that:

- the consolidated balance sheet, profit and loss account and statement of source and application of funds are in conformity with accepted accounting principles which are described in Note 2;
- these principles comply with the historic cost convention and, within this reporting framework, the consolidated financial statements give a true and fair view of the financial position at March 31, 1989 and of the results of operations and the change in financial position of Compagnie Financière Richemont AG and its subsidiary companies for the year ended March 31, 1989.

Zurich, July 3, 1989

PRICE WATERHOUSE AG

Urs Landolt David Dean

# COMPAGNIE FINANCIERE RICHEMONT AG

## DIRECTORS' REPORT

The Board of Directors of Compagnie Financière Richemont AG is pleased to submit its report on the activities of the company for the period since its incorporation on August 16, 1988 to March 31, 1989. The following financial statements set out the financial position of the company and the results of its operations for the period.

The agenda for the Annual General Meeting, which is to be held in Zug on August 16, 1989, is set out on page 40.

The results of the Group are presented in the Consolidated Financial Statements on pages 15 to 25. Further information on the Group's activities during the period under review is given in the Review of Operations on pages 8 to 12. A commentary on the Consolidated Financial Statements is contained in the Financial Review on pages 13 and 14.

## Balance sheet at March 31, 1989

Before appropriation of retained earnings

| | Notes | SFr |
|---|---|---|
| ASSETS | | |
| Investments | 2 | 702 565 090 |
| Fixed assets | | 838 443 |
| Loans to affiliated companies | | 3 406 322 |
| Debtors | | 142 319 |
| Cash | | 451 168 |
| | | 707 403 342 |
| CAPITAL AND RESERVES | | |
| Share capital | 3 | 574 200 000 |
| Legal reserve | 4 | 107 901 562 |
| Retained earnings | | 610 312 |
| | | 682 711 874 |
| LIABILITIES | | |
| Accrued expenses | | 1 419 886 |
| Loans from affiliated companies | | 23 271 582 |
| | | 24 691 468 |
| | | 707 403 342 |

## Profit and loss account for the period August 16, 1988 to March 31, 1989

| | SFr |
|---|---|
| INCOME | |
| Interest income | 88 398 |
| Other income | 3 377 729 |
| | 3 466 127 |
| EXPENSE | |
| Interest expense | 423 438 |
| Other expenses | 1 823 346 |
| | 2 246 784 |
| PROFIT BEFORE TAXATION | 1 219 343 |
| Taxation | 609 031 |
| NET PROFIT FOR THE PERIOD | 610 312 |

## Notes to the accounts at March 31, 1989

### Note 1 – Basis of preparation of the financial statements

The accounts represent the financial position of the company at March 31, 1989 and the results of its operations for the period from its incorporation on August 16, 1988 to March 31, 1989.

### Note 2 – Investments

These comprise investments in wholly-owned subsidiary companies, which are stated at cost.

| | SFr |
|---|---|
| Richemont SA, Luxembourg | 700 000 000 |
| Other investments | 2 565 090 |
| | 702 565 090 |

### Note 3 – Share capital

| | SFr |
|---|---|
| 522 000 'A' bearer shares with a par value of SFr 1 000 each, fully paid | 522 000 000 |
| 522 000 'B' registered shares with a par value of SFr 100 each, fully paid | 52 200 000 |
| | 574 200 000 |

### Note 4 – Legal reserve

| | SFr |
|---|---|
| Premium arising from the increase in share capital on September 20, 1988 | 128 759 200 |
| Less: formation expenses | (20 857 638) |
| | 107 901 562 |

# Proposal of the Board of Directors for the appropriation of retained earnings at March 31, 1989

| | SFr |
|---|---|
| AVAILABLE RETAINED EARNINGS: | |
| Net profit for the period | 610312 |
| PROPOSED APPROPRIATION: | |
| Transfer to legal reserve | 100000 |
| Balance to be carried forward | 510312 |
| | 610312 |

Details of the dividend proposed in respect of the participation certificates of Richemont SA, Luxembourg are given on page 37.

Zug, June 27, 1989

The Board of Directors

# Report of the statutory auditors

To the Shareholders
Compagnie Financière Richemont AG, Zug

As statutory auditors of Compagnie Financière Richemont AG, we have examined the financial statements at March 31, 1989 in accordance with the provisions of the Swiss Code of Obligations.

We report that

- the balance sheet and profit and loss account are in agreement with the books,
- the books have been properly kept,
- the financial position is presented in accordance with the principles of evaluation prescribed by the law and the requirements of the statutes.

Based on the results of our examination we recommend that the financial statements be approved.

We also confirm that the proposal of the Board of Directors for the appropriation of the retained earnings is in agreement with the law and with the company's statutes.

Zurich, July 3, 1989

PRICE WATERHOUSE AG

Urs Landolt David Dean

# RICHEMONT SA

## DIRECTORS' REPORT

The Board of Directors of Richemont SA is pleased to submit its report on the activities of the company for the year ended March 31, 1989. The following financial statements set out the financial position of the company and the results of its operations for the year.

## Balance sheet at March 31, 1989

Before appropriation of retained earnings

| | Notes | £ |
|---|---|---|
| **ASSETS** | | |
| Investments | 2 | 906 379 904 |
| Cash | | 6 251 896 |
| Dividend receivable | | 32 000 000 |
| | | 944 631 800 |
| **CAPITAL AND RESERVES** | | |
| Share capital | 3 | 143 550 000 |
| Participation reserve | 4 | 430 650 000 |
| Legal reserve | 5 | 2 652 801 |
| General reserve | 6 | 285 307 641 |
| Retained earnings | | 81 394 502 |
| | | 943 554 944 |
| **LIABILITIES** | | |
| Accrued expenses | | 77 913 |
| Loans from affiliated companies | | 998 943 |
| | | 1 076 856 |
| | | 944 631 800 |

## Profit and loss account for the year ended March 31, 1989

| | £ |
|---|---|
| INCOME | |
| Dividend income | 32 000 000 |
| Other income | 93 797 |
| | 32 093 797 |
| EXPENSE | |
| General expenses | 1 102 521 |
| NET PROFIT FOR THE YEAR | 30 991 276 |
| Retained earnings brought forward | 50 403 226 |
| RETAINED EARNINGS AT MARCH 31, 1989 | 81 394 502 |

# Notes to the accounts at March 31, 1989

## Note 1 – Basis of preparation of the financial statements

Richemont SA is a Luxembourg holding company, incorporated on March 5, 1979. It is a wholly-owned subsidiary of Compagnie Financière Richemont AG, Zug. The accounts represent the financial position of the company at March 31, 1989 and the results of its operations for the year then ended.

## Note 2 – Investments

These comprise investments in wholly-owned subsidiary companies which are stated at cost.

| | £ |
|---|---|
| Investments in subsidiary companies | 620 755 518 |
| Loans to subsidiary companies | 285 624 386 |
| | 906 379 904 |

## Note 3 – Share capital

| | £ |
|---|---|
| 191 400 registered shares with a par value of £ 750 each, fully paid | 143 550 000 |

## Note 4 – Participation reserve

| | £ |
|---|---|
| Reserve established in respect of 574 200 participation certificates with no par value | 430 650 000 |

## Note 5 – Legal reserve

The legal reserve is not available for distribution.

## Note 6 – General reserve

The general reserve amounting to £ 285 307 641 is available for distribution subject to the approval of the shareholders.

## Proposal of the Board of Directors for the appropriation of retained earnings at March 31, 1989

| | £ |
|---|---|
| AVAILABLE RETAINED EARNINGS: | |
| Net profit for the year | 30 991 276 |
| Retained earnings brought forward | 50 403 226 |
| | 81 394 502 |
| PROPOSED APPROPRIATION: | |
| Transfer to legal reserve | 1 550 000 |
| 3.5% dividend payable on share capital | 5 024 250 |
| 4.5% dividend payable on participation reserve | 19 379 250 |
| Balance to be carried forward | 55 441 002 |
| | 81 394 502 |

The dividend payable on the share capital will be payable to Compagnie Financière Richemont AG, Zug.

The dividend payable on the participation reserve will amount to £ 33.75 per participation certificate. It will be payable to unitholders of Richemont on September 4, 1989 in respect of coupon number 1, free of charges, at the banks designated as paying agents.

Luxembourg, June 13, 1989

The Board of Directors

## Report of the independent auditors

To the Shareholders
Richemont SA, Luxembourg

We have examined the balance sheet at March 31, 1989 of Richemont SA and the related profit and loss account. Our examination was made in accordance with generally accepted auditing standards.

In our opinion, the accompanying financial statements examined by us give a true and fair view of the financial position of Richemont SA at March 31, 1989 and of the profit for the year then ended and are prepared in conformity with Luxembourg accounting principles. We also confirm that the proposal of the Board of Directors for the appropriation of the retained earnings is in agreement with the law and with the company's statutes.

Luxembourg, July 3, 1989

PRICE WATERHOUSE

# NOTICE OF MEETING

The Annual General Meeting of shareholders of Compagnie Financière Richemont AG will be held at 2.30 p.m. in the "Grosser Saal", Artherstrasse 2–4, 6300 Zug on Wednesday, August 16, 1989.

**Agenda**

1. Review and approval of the financial statements, the report of the Board of Directors and the report of the statutory auditors for the period ended March 31, 1989.
2. Discharge of the Board of Directors and of the management.
3. Decision on the appropriation of retained earnings.
4. Election of the Board of Directors. The existing members of the Board are eligible for re-election and offer themselves for a further term in office.
5. Election of the statutory auditors.

The financial statements and the related report of the statutory auditors together with the report of the Board of Directors are available for inspection at the registered office of the company from July 26, 1989 onwards.

Tickets for entrance to the Annual General Meeting together with voting cards may be obtained, upon deposit of share certificates, from any branch of the following banks up to August 10, 1989:

Union Bank of Switzerland
Bank J. Vontobel & Co. AG
Darier & Cie
Hentsch & Cie
Pictet & Cie
Anlage- und Kreditbank AKB

No entrance tickets will be issued on the day of the meeting itself.

Zug, July 7, 1989

For the Board of Directors:

Nikolaus Senn — Chairman

Johann Rupert — Managing Director

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