Richemont is a Swiss-based tobacco and luxury goods group. It is managed with a view to the profitable long-term development of successful international brands. It is the ultimate parent of a family of some of the world's leading consumer brands.

Richemont's tobacco interests are held through Rothmans International, the world's fourth largest multinational tobacco company. Its international brands include Rothmans, Peter Stuyvesant, Dunhill and Winfield. In addition, Rothmans International markets a range of regional and local brands around the world.

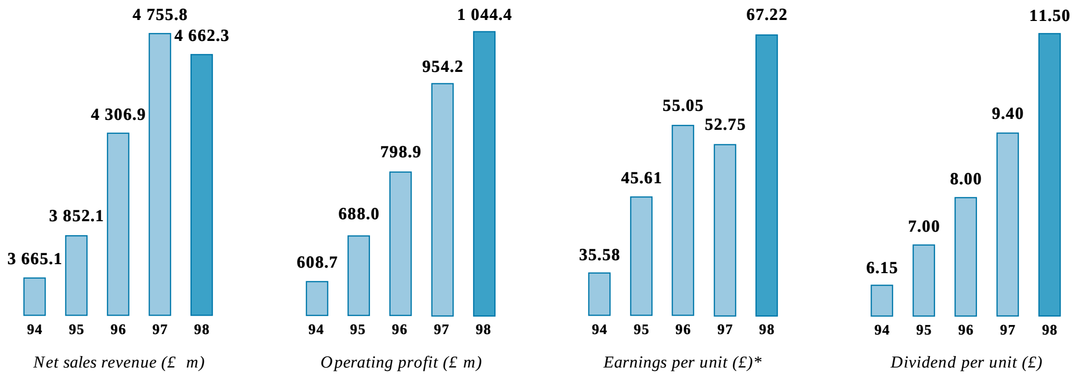
Richemont's luxury goods brands are held through Vendôme Luxury Group. Vendôme owns a portfolio of leading international brands including Cartier, Alfred Dunhill, Montblanc and Lancel as well as the prestigious Swiss watch manufacturers Vacheron Constantin, Piaget and Baume & Mercier.

In addition to its tobacco and luxury goods businesses, Richemont holds investments in the pay television and direct marketing industries.

CONTENTS

This report is also available in French and German language versions.

	1998 £	1997 £	
Net sales revenue	**4 662.3 m**	4 755.8 m	– 2.0 %
Operating profit	**1 044.4 m**	954.2 m	+ 9.5 %
Attributable profit*	**386.0 m**	302.9 m	+ 27.4 %
Earnings per unit*	**67.22**	52.75	+ 27.4 %
Dividend per unit	**11.50**	9.40	+ 22.3 %



*Attributable profit and earnings per unit have been presented on an adjusted basis, excluding exceptional items and goodwill amortisation. On a reported basis, including exceptional items and goodwill amortisation, attributable profit and earnings per unit amounted to £ 329.4 million (1997: £ 513.4 million) and £ 57.37 (1997: £ 89.41), respectively.

TOBACCO PRODUCTS – Richemont's tobacco interests are held through a 66.7 per cent shareholding in Rothmans International, the fourth largest multinational tobacco company in the world. Rothmans International is exclusively engaged in the manufacture, distribution and sale of tobacco products, including cigarettes, fine cut tobacco, pipe tobacco and cigars. Its portfolio includes internationally recognised trade marks such as Rothmans, Peter Stuyvesant and Dunhill, as well as Craven "A", Winfield and Vogue.

LUXURY GOODS – Richemont's interests in the luxury goods industry are held through its wholly owned subsidiary Vendôme Luxury Group. Vendôme, through Cartier and the three specialist Swiss watch brands of Piaget, Baume & Mercier and Vacheron Constantin, occupies a leading position in the market for high value jewellery and watches. Other leading brands within Vendôme include Montblanc, Alfred Dunhill and Lancel.

PAY TELEVISION – Richemont holds a 15 per cent interest in Canal+ SA, Europe's leading pay television company which operates analogue and digital services in France, Spain, Italy, Scandinavia, the Benelux and Poland.

DIRECT RETAILING – Richemont's interest in direct retailing is held through a 48 per cent shareholding in Hanover Direct Inc., one of the leading direct-to-home catalogue retailers in the United States.

Nikolaus Senn
CHAIRMAN

I AM PLEASED to be able to report that the Group's results for the year under review show a satisfactory increase over the prior year. Profit attributable to unitholders has increased by 27.4 per cent to £ 386 million, due largely to the benefits of the merger of our pay-television interests with Canal+ of France at the end of the previous financial year. The Group's core tobacco and luxury goods businesses performed well during the year, showing solid growth in terms of sales and profitability in constant currency terms.

There have been many developments during the ten years since the formation of Richemont in 1988. Key amongst these was the privatisation of Rothmans International in 1995 and the subsequent merger with the tobacco interests of the Rembrandt Group of South Africa, which united the two group's shared tobacco brands under one umbrella. Having consolidated control over its tobacco brands, Richemont was able, during the year under review, to acquire the minority shareholders' interests in Vendôme Luxury Group giving the Group full control over its luxury goods business. Over the ten year period, attributable profit and earnings per unit have grown to £ 386 million and £ 67.22 respectively, reflecting a compound annual growth rate of 17.5 per cent.

The Group's dividend has also shown steady growth and your Board is pleased to report that a further increase of 22.3 per cent to £ 11.50 per unit has been proposed for the current year.

In April of this year, our colleague Lord Swaythling resigned from the Board for reasons of ill-health. Lord Swaythling joined the Board in 1990 and served on the Board of Rothmans International and its predecessor companies for more than 30 years, most recently as Chairman. He made an invaluable contribution to the Group during that time and his perceptive comments, wisdom and humour at our meetings will be sorely missed.

At this year's annual general meeting, Mr Leo Deschuyteneer and Mr Ernst Verloop will be proposed for election to the board. Mr Deschuyteneer is an Executive Director of Sofina SA, a leading Belgian investment company which was formerly a shareholder in Vendôme Luxury Group. Mr Verloop is a former director of Unilever and served on the Board of Rothmans International as well as several of the Group's Dutch subsidiaries for a number of years.

The development of the Group over the past ten years would not have been achievable without the dedication and effort of its employees over that period. On behalf of shareholders, I take this opportunity to thank them all for their commitment and loyalty to the Group.

Nikolaus Senn
CHAIRMAN
Compagnie Financière Richemont AG *Zug, 17 June 1998*

COMPAGNIE FINANCIÈRE RICHEMONT AG

Nikolaus Senn

CHAIRMAN

Dr Senn, aged 71, is a non-executive director. He is Honorary Chairman of Union Bank of Switzerland.

Jean-Paul Aeschimann

DEPUTY CHAIRMAN

Maître Aeschimann, aged 64, is a non-executive director and is a director of Vendôme Luxury Group. He is an attorney at the Bar of Geneva and is also a director of Reuters SA and Barclays Bank (Suisse) SA.

Johann Rupert

CHIEF EXECUTIVE

Mr Rupert, aged 48, is Chairman of Rothmans International and is a director of Vendôme Luxury Group and Canal+. He is also Chairman of Rembrandt Group Limited and of Gold Fields of South Africa Limited.

Jan du Plessis

FINANCE DIRECTOR

Mr du Plessis, aged 44, is a director of Rothmans International, Vendôme Luxury Group and Hanover Direct.

Yves-André Istel

Mr Istel, aged 62, is a non-executive director. He is Vice Chairman of Rothschild Inc., New York and Rothschild Europe and is a director of Rothschild & Cie. He also serves on the boards of several other public companies and non-profit institutions.

Joseph Kanoui

Mr Kanoui, aged 61, is Chairman and Chief Executive of Vendôme Luxury Group and Chairman of Cartier Monde.

Lord Renwick of Clifton KCMG

Lord Renwick, aged 60, is a non-executive director. Having formerly served as British Ambassador to South Africa and the United States, he is now Chairman of Robert Fleming Inc. and of Fluor Daniel and serves on the boards of a number of other public companies including Canal+, British Airways and Billiton.

William Ryan

Mr Ryan, aged 63, is Chief Executive of Rothmans International and serves on the boards of several public companies in that group.

RICHEMONT SA

Johann Rupert*
CHAIRMAN

Joseph Kanoui*
MANAGING DIRECTOR

Jean-Paul Aeschimann*
NON-EXECUTIVE DIRECTOR

Jan du Plessis*
FINANCE DIRECTOR

Eloy Michotte
Mr Michotte, aged 50, is an executive director with primary responsibility for corporate finance. He is a member of the board of directors of Canal+.

Frederick Mostert
Dr Mostert, aged 38, is an executive director with responsibility for intellectual property. He is a member of the New York Bar and is President of the International Trade Mark Association.

Alan Quasha
Mr Quasha, aged 48, is a non-executive director. Based in New York, he is Chairman of Hanover Direct.

Howard Tanner
Mr Tanner, aged 54, is an executive director and serves on the board of Hanover Direct.

**Also a director of Compagnie Financière Richemont AG*

STATUTORY INFORMATION

COMPAGNIE FINANCIÈRE RICHEMONT AG

Registered Office	Rigistrasse 2 CH 6300 Zug Switzerland Telephone: 041 710 33 22 Telefax: 041 711 71 02
Group and Statutory Auditors	Coopers & Lybrand AG Zurich
Company Secretary	**Alan Grieve**

RICHEMONT SA

Registered Office	35 Boulevard Prince Henri L 1724 Luxembourg Telephone: 22 72 52 Telefax: 22 72 53
Statutory Auditors	Coopers & Lybrand SC Luxembourg
Company Secretary	**Alan Grieve**

Richemont SA is a wholly-owned subsidiary of Compagnie Financière Richemont AG. Participation certificates issued by Richemont SA are indivisibly twinned with the shares of Compagnie Financière Richemont AG to form Richemont units. Richemont units are traded on the Swiss Stock Exchange. Depositary receipts in respect of Richemont units are traded on the Johannesburg Stock Exchange; American Depositary Receipts are traded over the counter in New York and are quoted on SEAQ International in London.

Johann Rupert
CHIEF EXECUTIVE

RESULTS – Although sales and earnings were adversely influenced by the strength of sterling throughout the financial year, Richemont's tobacco and luxury goods businesses have produced satisfactory results. In addition, the merger of the Group's pay television interests, formerly held through NetHold, with those of Canal+ has resulted in significantly lower losses.

NET SALES REVENUE

	1998 £ m	1997 £ m	
Tobacco	**3 636**	3 300	+10.2%
Luxury goods	**1 635**	1 456	+12.3%
At constant rates	**5 271**	4 756	+10.8%
Adjustment to actual exchange rates	**(609)**	–	
At actual rates	**4 662**	4 756	– 2.0%

OPERATING PROFIT

	1998 £ m	1997 £ m	
Tobacco	**938**	810	+15.9%
Luxury goods	**258**	243	+ 6.2%
Pay television	**(20)**	(81)	–
Direct retailing	–	(16)	–
Other	–	(2)	–
At constant rates	**1 176**	954	+23.3%
Adjustment to actual exchange rates	**(132)**	–	
At actual rates	**1 044**	954	+ 9.5%

In constant currency terms, Rothmans International's net sales revenue grew by 10 per cent to £ 3 636 million and operating profit increased by some 16 per cent to £ 938 million. Translated into sterling at actual exchange rates, however, tobacco net sales revenue decreased by 4 per cent to £ 3 172 million and operating profit grew by 1 per cent to £ 821 million. In terms of Swiss francs, Vendôme Luxury Group's reporting currency, sales were some 19 per cent higher at SFr 3 577 million and operating profit was 15 per cent higher at SFr 578 million. Converted into sterling at actual exchange rates, reported sales grew by only 2 per cent to £ 1 490 million and operating profit fell marginally to £ 241 million.

VENDÔME LUXURY GROUP – The most significant event of the year was the acquisition by Richemont of the minority shareholders' interest in Vendôme Luxury Group. Announced in November 1997, the offer, at £ 4.95 per Vendôme unit, valued the company at some £ 3.45 billion. The offer represented a premium of 26 per cent over the then prevailing market price. Notwithstanding the turmoil in Far Eastern markets, Richemont took the view that an offer at this price level was justified by the long-term potential of the brands that make up Vendôme. Equally, it was felt that the nature of the luxury goods business is such that Vendôme would benefit from being removed from the spotlight of being a public company. Richemont has confidence in the strength of Vendôme's key brands, of which Cartier is paramount, and will ensure that adequate resources are available to Vendôme to allow it to grow in size and strength in the years to come.

The total value of the buy-out was £ 1 053 million. This was financed in almost equal proportions by Richemont and Vendôme's own funds on the one hand and by bank borrowings on the other. The transaction was completed at the end of the financial year and is reflected in the Group balance sheet at 31 March. The transaction has had no impact on the Group's results for the year under review.

BUSINESS DEVELOPMENTS – During the year the Group's tobacco business enjoyed good results in many markets with world-wide sales volumes increasing by some 3 per cent. The principal gain was in France, where the Group's sales increased by 40 per cent in volume terms. Further volume growth was achieved, in particular, in Central & Eastern Europe, Indonesia, Spain, Vietnam and Malaysia although volumes declined in South Africa and in Germany. The group benefited from new marketing initiatives, most notably the success of the Winfield brand in the French market, and volume performance as a whole has been encouraging.

Although the economic difficulties in the Far East have resulted in a softening of demand in certain markets, most notably Hong Kong, in the latter part of the year, Vendôme Luxury Group has been able to report good results for the year as a whole. Growth was achieved in all major markets, with the United States and Europe being particularly strong. During the year, Vendôme acquired Lancel, the prestigious French leather goods manufacturer. This has increased Vendôme's in-house production capacity in terms of leather products and will broaden the group's product range in this important market area.

The Group's interest in Canal+, which is accounted for as an associated company, produced a much reduced loss in comparison to the Group's share of NetHold's losses in the previous year. Canal+ has strengthened its position as Europe's leading analogue and digital pay-television operator, having relaunched the former NetHold channels in Italy, the Benelux and Northern Europe. The strength of the Canal+ franchise in Europe is considerable and, with its dynamic management team, we are confident that the company will remain the industry leader in Europe.

During the year under review, Richemont has participated in a rights issue by Hanover Direct Inc. and, subsequent to the end of the financial year, has reached agreement with its partners in NAR Group Limited to unwind that joint venture and take direct ownership of its interest in Hanover Direct. In consequence, Richemont's interest in Hanover Direct is currently some 48 per cent. Although the company is still in a turnaround phase, the strengthened management team has made considerable progress in improving its performance.

OUTLOOK – Both Rothmans International and Vendôme Luxury Group are fundamentally sound and highly cash generative businesses. With the strength of their respective brand portfolios and the geographic spread of their activities, both are well positioned to meet the challenges which the present turbulent economic environment will place upon them.

It is difficult to forecast with any accuracy the likely effects of the continuing economic downturn in the Far East on the Group's businesses. In particular the effects of weakening currencies will continue to have an impact on the translation of results into sterling in the current year. Despite the uncertainties caused by these external factors, we remain cautiously optimistic that the current year's results will continue to show progress.

Johann P. Rupert.

Johann Rupert
CHIEF EXECUTIVE
Compagnie Financière Richemont AG *Zug, 17 June 1998*

TOBACCO PRODUCTS

RICHEMONT'S tobacco interests are held through a 66.7 per cent interest in Rothmans International, the fourth largest multinational tobacco company in the world. Rothmans International is exclusively engaged in the manufacture, distribution and sale of tobacco products, including cigarettes, fine cut tobacco, pipe tobacco and cigars. Its portfolio includes internationally recognised trade marks such as Rothmans, Peter Stuyvesant and Dunhill, as well as Craven "A", Winfield and Vogue.

Richemont owns two thirds of Rothmans International, the remaining one third being held by Rembrandt Group Limited, a public company incorporated in South Africa. Rembrandt's interest in Rothmans International arose from the merger of its tobacco interests, principally in South Africa, with Rothmans International in January 1996. Rothmans International has approximately 20 000 employees and operates some 30 factories around the world. Its products are sold in over 160 countries and territories.

Rothmans International has a portfolio of internationally recognised trade marks. Rothmans, Peter Stuyvesant and Dunhill are, in terms of sales volumes outside the United States, in the world's top 15 international cigarette trade marks. Regional cigarette trade marks include Craven "A," Winfield and Vogue. Other regional cigarette trade marks include Golden American in Western and Eastern Europe and Holiday in the Pacific region. Local cigarette trade marks include Parisienne in Switzerland, Belga in Belgium, Caballero in The Netherlands, Carrolls in Ireland and Lord in Germany. Rothmans International has also developed several international, lower priced, cigarette brands with trade marks such as London and Dallas. In non-cigarette tobacco products, the main trade marks are Samson (fine cut tobacco), Captain Black (pipe tobacco) and Dunhill, Schimmelpenninck and Corps Diplomatique (cigars).

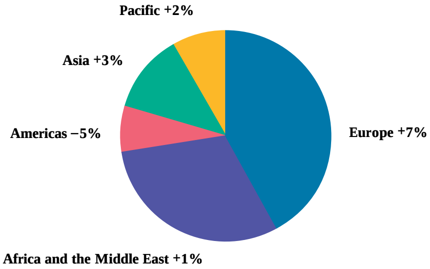
The trade marks enjoy substantial marketing support. From 1994 to 1997 the Rothmans trade mark was supported by sponsorship of the Williams Formula One Grand Prix team, which won the World Championship for Constructors and the World Drivers' Championship in both 1996 and 1997. For the 1998 season, Winfield is the sponsor of the Williams Formula One team.

In Europe, the main production facilities are located in Zevenaar, in The Netherlands, and in Darlington and Spennymoor in the North East of England, together accounting for some 40 per cent of Rothmans International's world-wide cigarette production. During the year, the Group's new state of the art production facility in St Petersburg in Russia became fully operational and is now producing Dallas King Size for the Russian market. With an initial production capacity of 6 billion cigarettes a year, the factory has the capacity to meet the increasing demand for the Group's trade marks in the former Soviet Union. Rothmans International's other main production facilities are located in South Africa, Malaysia, Singapore, Australia, Canada and Switzerland.

Despite the fragile economic environment in Russia, Rothmans King Size and Rothmans Lights continued to develop their volume base as distribution was progressively expanded and intensive publicity activity increased brand awareness.

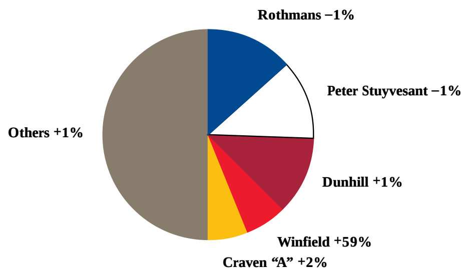
Sales volumes – Rothmans International's sales volumes increased by over 3 per cent in the year under review. The principal gain arose in France, where cigarette volumes increased by 40 per cent. Further volume growth was achieved in Rothmans International's development markets and in particular in Central & Eastern Europe, Indonesia, Spain, Vietnam and in Malaysia, where volumes improved by 7 per cent. However, volumes declined in several of the Group's established markets, notably in South Africa, reflecting the overall market contraction as a result of the draconian level of excise tax increases, and in Germany. Volumes in Switzerland benefited from a full year of sales by F J Burrus, against nine months last year following its acquisition in June 1996.

VOLUME PERFORMANCE BY REGION



Winfield, Australia's number one trade mark, was Rothmans International's fastest growing trade mark following its successful launch in France in November 1996, with volumes increasing by nearly 60 per cent world-wide. Winfield has been launched in several other European countries, including Belgium, Ireland, Germany, The Netherlands and Spain, with encouraging progress. Dunhill volumes continued to grow, particularly in Malaysia, where it is the leading trade mark.

VOLUME PERFORMANCE BY TRADE MARK



FINANCIAL RESULTS – Rothmans International's financial results, reported in sterling, were adversely affected by the strength of sterling during the year, exacerbated by the weakness of the Asian currencies, particularly the Malaysian ringgit, which masked the strong underlying performance of the Group's tobacco business. Translated at constant currencies, net sales revenue increased by 10 per cent and operating profit by 16 per cent. However, translated at actual average rates for each year, net sales revenue declined by 4 per cent and the growth in operating profit was restricted to 1 per cent.

The underlying growth in net sales revenue reflected higher volumes and price increases, although the mix of sales reflected the trend in many markets towards a higher proportion of lower priced products. The underlying improvement in operating profit was derived mainly from France, Malaysia and the United Kingdom. Operating profit also benefited from one-off excise duty gains in Australia. However, in Central & Eastern Europe an increased investment in developing the Group's business more than offset the benefit of higher sales volumes. Profitability in Equatorial Africa was adversely affected by difficult trading conditions.

The professionalism and commitment of the team in Malaysia produced another excellent performance with Dunhill King Size as market leader achieving 40 per cent market share and contributing to a total company share approaching 60 per cent.

ANALYSIS OF SALES AND OPERATING PROFIT	Net sales revenue			Operating profit		
	1998	1997		**1998**	1997	
	£ m	£ m		**£ m**	£ m	
Europe	**1 595.5**	1 412.3	+ 13%	**279.1**	249.4	+ 12%
Africa and the Middle East	**743.9**	675.1	+ 10%	**243.0**	236.0	+ 3%
Americas	**316.5**	304.7	+ 4%	**105.5**	93.5	+ 13%
Asia	**590.2**	540.1	+ 9%	**185.9**	143.7	+ 29%
Pacific	**389.5**	367.9	+ 6%	**109.2**	73.3	+ 49%
Rothmans International and its subsidiary undertakings	**3 635.6**	3 300.1	+ 10%	**922.7**	795.9	+ 16%
Share of associated undertakings	**–**	–		**15.7**	14.1	+ 11%
At constant rates	**3 635.6**	3 300.1		**938.4**	810.0	+ 16%
Translation adjustment	**(463.7)**	–		**(117.5)**	–	
As reported	**3 171.9**	3 300.1	– 4%	**820.9**	810.0	+ 1%

The table set out above analyses net sales revenue and operating profit by geographic areas of operation. As explained above, Rothmans International's results were severely affected by currency movement and therefore the analysis shown above is at constant exchange rates with an adjustment to arrive back at actual exchange rates.

The following sections review the performance of Rothmans International in its five geographic areas of operation. **References throughout to changes in net sales revenue and operating profit are all at constant exchange rates.**

EUROPE – This region includes both Western and Eastern Europe and the former Soviet Union as well as the European-based fine cut, pipe tobacco and cigar business. The Group's major markets are the United Kingdom, France, Switzerland, Germany and Benelux.

Sales volumes in this region, which account for over 40 per cent of Rothmans International's total volumes, increased by 7 per cent, reflecting market share gains in France, growth in Central & Eastern Europe, Spain and Portugal and the benefit of the inclusion of a full year of sales of F J Burrus in Switzerland. However, in some Western Europe markets cigarette sales declined in part due to contracting domestic consumption.

Net sales revenue increased by 13 per cent and operating profit grew by 12 per cent. The improvement was mainly due to the volume growth and price rises which more than offset increased investment in marketing, particularly in Central & Eastern Europe.

Rothmans International's overall cigarette market share in Western Europe increased, mainly due to the success of Winfield in France. Sales volumes in France increased by 40 per cent and market share improved from 11.7 per cent

Rothmans' fourth season of Formula One sponsorship was highly successful with Jacques Villeneuve leading the field to win the 1997 Drivers' Championship and the Rothmans Williams Renault team securing the World Constructors' Championship.

to 16.6 per cent. In the United Kingdom domestic market the Group operates in partnership with Philip Morris, with Rothmans International holding a controlling 65 per cent share. Market share in the United Kingdom improved and, despite a contraction of the overall market, a small year on year volume growth was achieved. Market share in Switzerland grew slightly; however in the Benelux, Germany, Greece and Ireland market share and volumes declined. Golden American Classic enjoyed considerable success in Spain, with sales increasing by 80 per cent.

Sales volumes in Central & Eastern Europe increased by 6 per cent. Much of the growth came from the former Soviet Union, where sales of Pall Mall Export increased by 10 per cent. Rothmans International also achieved a successful launch of Pall Mall Export in Croatia, despite the total ban on branded cigarette advertising. Sales in Poland showed a small improvement – sales of Golden American Lights increased by over 50 per cent, more than compensating for lower sales of most other trade marks.

In non-cigarette tobacco products, operating profit was broadly unchanged. Despite generally lower consumption levels in the mature Western European smoking tobacco markets, volume performance was encouraging. In the fine cut tobacco sector, Rothmans International defended its European share at the level of the previous year, while its position in European pipe tobacco markets was successfully extended. Focused activities capitalising on areas of strength in Belgium, France, the United Kingdom and certain export markets led to encouraging growth of cigar volumes. Rothmans International continues to exploit the international and duty free market opportunities for the Dunhill range of premium cigars. Further product cost benefits were realised through improved levels of manufacturing efficiency and production consolidation.

AFRICA AND THE MIDDLE EAST – This geographic region covers the African continent, the Middle East and South Asia. In the year under review, net sales revenue for the region increased by 10 per cent, principally due to price increases in the region and volume gains in the Middle East. Operating profit increased by 3 per cent.

In South Africa, Rothmans International is the clear market leader. Market share was maintained with Peter Stuyvesant, the country’s number one trade mark, increasing its share. In the low price sector, sales of Royals continued to grow. However, the South African cigarette market continued to suffer the burden of increasing excise taxes and sales fell in line with the market decline. Cigarette taxes were further increased in March 1998.

Although volumes improved in Equatorial Africa, profits were adversely affected by difficult trading conditions in many markets. Volumes continued to grow in Côte d’Ivoire where Rothmans International is the market leader, through higher sales of Craven “A” and Dunhill.

In the Middle East, the Group had a successful year in obtaining export orders, enabling sales volumes to increase by 5 per cent. In Saudi Arabia, Rothmans King Size, Rothmans International’s flagship trade mark in that market, continued to show good growth. In the United Arab Emirates, volumes of London King Size improved by over 50 per cent. Overall in the Middle East profitability improved with margin gains being offset by higher operating costs.

Despite economic pressures and large excise tax increases, both Peter Stuyvesant King Size and Peter Stuyvesant Extra Mild grew market share in South Africa, further enhancing the strong market leadership position enjoyed by the trade mark in that market.

AMERICAS – Rothmans International's main operation in the Americas is in Canada, where it operates through a 71 per cent shareholding in its listed company, Rothmans Inc., which holds 60 per cent of Rothmans, Benson and Hedges Inc., an equity partnership with Philip Morris. In Jamaica, Rothmans International is the market leader through its associate, Carreras Group Limited. In the United States, the Group focuses on the sale of cigars and pipe tobacco.

Operating profit for the region grew by 13 per cent, mainly due to higher selling prices partly offset by lower sales volumes.

On a composite basis, sales volumes of cigarettes and other tobacco products fell by 7 per cent in Canada, due to the decline in the total market and a lower market share. However, profitability improved through price increases.

In the United States, sales of premium cigars increased by 8 per cent, with profitability further improved by selling price increases. In the pipe tobacco sector, market share gains partly compensated for the decline in the overall market.

Jamaican volumes fell by 3 per cent, in line with reduced domestic consumption, however profitability improved substantially through price increases.

ASIA – In the Asia region Rothmans International operates through two listed companies, Rothmans of Pall Mall (Malaysia) Berhad and Rothmans Industries Limited of Singapore, and through wholly owned companies in North East Asia. Rothmans International also has a joint venture manufacturing arrangement in China with the China National Tobacco Corporation, Shandong Provincial Company.

Sales volumes for the region overall increased by 3 per cent and net sales revenue increased by 9 per cent. Operating profit improved by 29 per cent, reflecting the volume growth, price increases and lower costs.

Rothmans of Pall Mall (Malaysia) Berhad, the market leader in Malaysia, enjoyed another year of strong volume and underlying profit growth. Sales of Dunhill King Size, the leading trade mark, increased by 10 per cent.

In Singapore, Rothmans Industries Limited's domestic sales volumes decreased by 3 per cent, reflecting a decline in market share. In local currency terms, profitability was virtually unchanged. Several other ASEAN markets are managed by the Singapore company, including Vietnam, where sales grew by 20 per cent.

Volumes in China were disappointing, with the local joint venture's sales down nearly 70 per cent, mainly due to over-supply in the market. A major restructuring and down-sizing of the Group's business in Japan was carried out during the year. Although sales volumes fell by 16 per cent, reflecting the scaled down distribution and the reduced level of promotion of the Group's trade marks, trading results in Japan are now close to a break-even level.

PACIFIC – In the Pacific region, Rothmans International operates in Australasia and Indonesia, through Rothmans Holdings Limited, a listed company. The Group is market leader in New Zealand and the clear number two player in Australia.

Sales volumes for the region overall improved by 2 per cent, principally due to gains in Indonesia. Net sales revenue increased by 6 per cent. Operating profit

Growing demand from discerning smokers for premium quality cigars and an improvement in product availability benefited Dunhill cigar sales. Although this demand is focused in the USA, other world markets showed a growing awareness of the smoking pleasure derived from high quality cigars.

improved by nearly 50 per cent with the benefit of a windfall profit arising in Australia from excise gains on the clearance of finished goods stock prior to a change in the taxation structure. The excise gains amounted to £ 37 million at constant exchange rates (£ 32 million at actual rates).

Rothmans International's share of the Australian cigarette market improved during the year, which, with the decline in the overall market, led to a small volume improvement. The market share gain was derived from sales of Holiday in the lower price segment, which increased by 24 per cent. However, sales of Winfield, the market leader, declined by 7 per cent. Australia remains an extremely competitive market place where Rothmans International will be ready to respond rapidly to competitor actions.

In New Zealand, Rothmans International's share of the cigarette market declined marginally which, combined with a further contraction of the total market, resulted in a 4 per cent reduction in sales volumes. However, profitability improved with the benefit of price increases partly offset by a higher level of costs.

Further progress was achieved in Indonesia with the Kansas trade mark, which saw substantial growth in the Lights variant. Rothmans International continues to incur operating losses in this market as it invests to build a substantial long term business, however, given the current uncertainties associated with the downturn in the Indonesian economy, the situation is being kept under review.

INDUSTRY ISSUES – The global external environment in which the international tobacco industry operates remains challenging, as governments around the world continue to pursue costly and often ineffective public policy initiatives seeking to further regulate and control the industry and its consumers. Notwithstanding these challenges, Rothmans International remains committed to addressing those issues that affect its consumers, its employees and its business.

In the United States, Rothmans International has not been party to any discussions on the proposed resolution negotiated by five American tobacco companies and certain US state attorneys-general and private attorneys, announced on 20 June 1997. Developments in this area continue to be monitored.

Rothmans International will continue to maintain a strong defence of the rights and freedoms of those adults who choose to smoke its products. Believing that free competition is the cornerstone of a strong market economy, Rothmans International will continue to oppose any unjustified proposals to reduce marketing freedoms or unwarranted restrictions on the use of the Group's trade marks.

In Australia the launch of Holiday in a 20's format complemented the established 50's pack and resulted in market share growth of 24 per cent for the trade mark by the end of the year. The launch was supported by award winning innovative advertising at the point of sale.

LUXURY GOODS

RICHEMONT'S interests in the luxury goods industry are held through its wholly owned subsidiary Vendôme Luxury Group. Vendôme, through Cartier and the three specialist Swiss watch brands of Piaget, Baume & Mercier and Vacheron Constantin, occupies a leading position in the market for high value jewellery and watches. Other leading brands within Vendôme include Montblanc, Alfred Dunhill and Lancel.

Vendôme holds a leading position in the market for luxury writing instruments through Montblanc, which enjoys a particularly strong presence in Europe and North America.

Vendôme distributes luxury leather goods through Cartier, Lancel and Chloé, primarily for female leather goods, and Alfred Dunhill, Montblanc and Seeger, primarily for male leather accessories. Chloé also provides Vendôme with an important position in the market for ladies' ready-to-wear clothing and accessories.

Through Alfred Dunhill, Sulka and Hackett, Vendôme has a significant presence in the market for luxury menswear. The Alfred Dunhill range is particularly well established in Japan and the Far East. This is supported by Sulka, whose products are primarily available in the United States, and Hackett, who have a strong UK base.

Finally, Vendôme owns James Purdey & Sons, a prestigious name in the world game gun and rifle market, and Officine Panerai, an Italian watch brand which specialises in underwater timepieces.

Each of these brands is managed separately, with day-to-day responsibility for its own design, production, marketing and distribution. However, Vendôme management has a wealth of knowledge and experience of the luxury goods industry and this is shared to the benefit of all the brands in the Group. Accordingly, a number of commercial activities, including the manufacture and distribution of certain products, are increasingly being co-ordinated across the various brands.

The *Salon International de la Haute Horlogerie* in Geneva is a particularly important example of this co-ordination. This annual event, which is held under the auspices of Vendôme, provides a unique showcase for some of the world's leading names at the top end of the luxury watch market to present their latest collections to the trade. The exhibition continues to grow in stature as a cultural event not only for the luxury watch industry, but also for the city of Geneva, which has a long tradition of luxury watchmaking. All the Group's watch brands participate in this event, with Officine Panerai making its first appearance in 1998.

A leather production facility in Aix-les-Bains in France now provides all the brands within Vendôme with a centre of competence in leather manufacturing. This facility is available as a centre for the co-ordination of production and external suppliers, thereby ensuring quality and efficiency. Limited production began during the financial year and full capacity will be reached by the end of 1998 in this new facility purpose-built for the Group.

Held in Geneva each year under the auspices of Vendôme, the Salon International de la Haute Horlogerie is a unique showcase for some of the world's leading luxury watch manufacturers.

FINANCIAL RESULTS – Vendôme's net sales revenue in the year increased by 19.3 per cent to SFr 3 576.9 million and operating profit by 15.2 per cent to SFr 577.5 million. These results are based on a very strong performance in the first half of the year during which net sales revenue increased by 23.9 per cent and operating profit by 30.7 per cent.

All product categories showed growth in the year, although some, such as jewellery and watches, have benefited significantly from the increased investments made in the retail network and in advertising and promotion over the last few years.

Sales revenue by major product line

	1998 SFr m	1997 SFr m	
Jewellery	**671.6**	525.9	+27.7%
Gold and jewellery watches	**882.6**	705.4	+25.1%
Other watches	**656.2**	511.4	+28.3%
Writing instruments	**346.3**	319.7	+ 8.3%
Leather goods	**342.8**	295.3	+16.1%
Menswear	**196.1**	185.5	+ 5.7%
Other	**481.3**	455.6	+ 5.6%
	3 576.9	2 998.8	+19.3%

The increases in jewellery sales and sales of gold and jewellery watches have been primarily achieved through greater retail sales at Cartier. Sales of gold and jewellery watches benefited further from the inclusion of Vacheron Constantin for a full year, compared to just three months in the previous year. Sales of other watches showed increases in all the Group's watch brands, with the success of new products and the introduction of Montblanc's watch range.

Growth in sales of writing instruments is lower than most other product ranges, reflecting a tightening of the distribution network of Montblanc as priority is given to those points of sale with the highest standard of presentation and service.

The Far East is the primary market for leather goods. A decrease in tourist spending experienced in that region over the last 18 months has been exacerbated by the currency crisis in South East Asia, such that sales of these products have not shown underlying growth rates similar to the other major product ranges. In the second half-year, sales of leather goods have benefited from the contribution made by Lancel following its acquisition by the Group in October 1997.

Menswear sales reflect difficulties encountered by Alfred Dunhill in the Far East. This is partly due to lower tourist purchases in the Pacific markets and the effect of an increasingly unfavourable economic situation on Alfred Dunhill's main customer group in Japan.

Sales revenue by geographic area

	1998 SFr m	1997 SFr m	
Europe	**1 413.3**	1 114.0	+26.9%
Far East	**1 313.7**	1 208.4	+ 8.7%
Americas	**742.9**	593.4	+25.2%
Other	**107.0**	83.0	+28.9%
	3 576.9	2 998.8	+19.3%

The Cartier store in Bond Street, London – one of its three flagship stores – was decorated to reflect the theme of 150 Years of History and Romance.

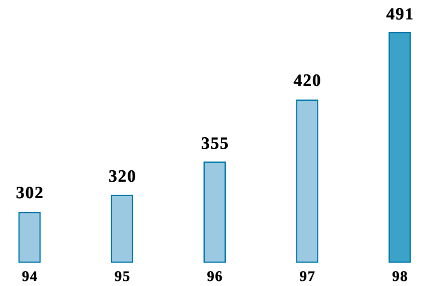
The analysis of net sales revenue set out on the previous page shows that the growth achieved in the year has primarily been generated in the European and American markets.

The growth of sales in Europe reflects increased investments by many of the Group's brands. In the Americas, all the brands present in the region have shown good levels of growth.

Sales in the Far East show a more modest increase. The Japanese market continued to show significant growth for the Group as a whole, although economic developments in Hong Kong and the South East Asian countries have led to a slow-down of demand in these markets. Whilst the countries most affected by these events, such as Indonesia, Malaysia and Thailand, represent just a small percentage of the Group's sales and have therefore had only a minor impact on the performance of the Group, Hong Kong is a much more important market and developments there are being carefully monitored.

The impressive growth in sales through stores owned by the Group in the year reflects the Group's strategy of increasing the quality of its distribution network. The chart below shows the expansion of the retail network over the last five years, excluding the Lancel stores acquired during the year. Lancel has a network of 85 points of sale world-wide, based mainly in Europe.

VENDÔME RETAIL NETWORK – NUMBER OF STORES



Retail sales also benefited from further investment in product ranges which are sold either exclusively through this network, such as jewellery products, or mainly through this channel, for example gold and jewellery watches. Retail sales represented 37.4 per cent of total sales revenue. Wholesale sales in the year increased by 13.5 per cent, the difficult environment in the duty free and tourist markets of the Far East offsetting much better growth in Europe and the Americas.

SALES REVENUE BY DISTRIBUTION CHANNEL

	1998	1997	
	SFr m	SFr m	
Retail	**1 339.1**	1 026.6	+30.4%
Wholesale	**2 237.8**	1 972.2	+13.5%
	3 576.9	2 998.8	+19.3%

LANCEL – During the year, Vendôme acquired a 95 per cent interest in Lancel, the prestigious French leather goods group, for an amount of SFr 328 million. Founded in 1876, Lancel offers an extended range of luggage, handbags and small leather goods, as well as watches, gift items and other accessories. Its network is particularly well represented in France, where the flagship store opened in 1929 at Place de l'Opéra in Paris. Lancel is a major French luxury brand and, based on its international reputation, also has a significant development potential world-wide.

Located in the Place de l'Opéra in the heart of Paris, Lancel's flagship store reflects the high profile enjoyed by the brand in terms of prestige leather goods.

With a young image and a product range that appeals to both men and women, Lancel will complement the existing leather businesses within Vendôme. The company will also assume the role of the Group's leather goods specialist. The acquisition of Lancel will offer substantial potential for further development in this important market, whilst leading to an increase of some 40 per cent in Vendôme's sales of leather goods. This product line will then become the third most important line behind watches and jewellery.

CARTIER – Cartier enjoyed remarkable success in its 150th anniversary year. In celebration of this event, two of the most important museums in the world, the Metropolitan Museum of Art in New York and the British Museum in London, honoured Cartier with major exhibitions, in the Spring and Autumn respectively. The theme of these exhibitions was Cartier 1900-1939, tracing the evolution of Cartier jewellery from the turn of the century opulence to the austerity of the 1930's through the various styles that marked the intervening period. Other highlights included the *Collection Privée* limited editions of 3, 150 and 1 847 pieces of some of Cartier's most exciting creations. These were available exclusively in Cartier stores. Throughout 1997, a special campaign entitled *150 Years of History and Romance* was complemented by various themed events world-wide to celebrate Cartier's anniversary.

In addition to these special events, sales benefited from continued growth in the core product ranges – jewellery and watches. Cartier's ranges of high, new and gold jewellery all showed substantial progress in the year, with sales of high jewellery, in particular, benefiting from the investments made in the product range and the retail network. The latest collection of new jewellery was based on the theme of *La Création* and contributed to increased sales in this category. Developments in the gold jewellery range included the new *Tank* collection of rings and bracelets which was launched last summer based on the familiar rectangular shape of the *Tank* watch. Another new product, the *Solitaire* ring, became an immediate success and is partly responsible for the excellent growth achieved by Cartier in Japan in the last year. New additions to the range of jewellery watches, including the new *Trinity* model and the diamond version of the *Tank Française*, and new mechanical watches produced to celebrate the 150th anniversary contributed to the increase in sales of gold and jewellery watches.

Although sales of leather goods in the Far East continue to be difficult, innovative new product developments have countered the effect by increasing turnover in other regions. During the year, Cartier launched its precious leather versions of existing handbags and small leather goods. These new products have been introduced on an extremely selective basis with only 20 stores offering this service to their clients.

The success of these new products was complemented by continued investment in new store locations, and the renovation of existing stores in accordance with Cartier's retail concept. Amongst the new locations, major stores were opened in Moscow Kouznovstyl, the centre of the jewellery business in Russia, and in India, at the Hotel Oberoi in Bombay. These countries not only have a great wealth and tradition of jewellery and jewellery design, but also a historical connection with Cartier reaching back into the previous century.

The introduction by Cartier of the collection of new jewellery based on the theme of La Création contributed to increased sales during the year.

ALFRED DUNHILL – The year under review has seen a re-focusing of Alfred Dunhill under its new management team, leading to a reorganisation of personnel and business practices and laying the foundation for future growth.

A menswear collection has been developed with a simple, classical and contemporary style, with clear inspiration from London. This will be launched world-wide in the summer of 1998 and has already received positive press during the catwalk launch. Continued success of the menswear range in China, where Alfred Dunhill is one of the leading names in the luxury business, has been one of the most positive developments in the year.

In terms of leather goods, the new CityScape collection was launched successfully and exclusively in Alfred Dunhill stores. Inspired by the unique design of the successful Alfred Dunhill faceted watch, the new range targets the business executive with products specifically designed to meet his needs.

Other product innovations have included a more contemporary version of the *Millennium* watch based on the traditional Alfred Dunhill model, and the *AD2000* pen. This pen is a striking combination of classical design, inspired by pieces in the Alfred Dunhill museum, and modern technology.

The refurbishment of the Jermyn Street flagship store, in London, was completed during the year and the Alfred Dunhill Museum has been relocated there. This museum illustrates the Alfred Dunhill heritage and the wealth of innovative products developed by the company over the last century.

A strengthened management team, new creative direction and new product developments have prepared Alfred Dunhill to meet the challenges of the year ahead and should be reflected in growth in the underlying business.

MONTBLANC – For Montblanc, new product development will provide the platform for growth in future years. The launch of the watch range, which features the famous black and gold of the *Meisterstück* writing instrument collection, represented a substantial investment in development and advertising. This has been rewarded in the year with a pleasing reception from the brand's jewellery partners. In addition, collections of eyewear and costume jewellery have been created to complement the existing ranges of writing instruments and leather goods.

In addition to the development of these new product ranges, Montblanc's core business - writing instruments - has seen continued creative input. Special limited edition fountain pens honouring Alexander the Great were produced during the year in addition to new product launches. New markets have also been opened up during the year, notably in India and Brazil. These have great potential for future growth.

Other product innovations included a precious metal version of the successful *Meisterstück Mozart* collection, particularly aimed at female customers through the Montblanc retail network. Sales of the new product ranges are performing extremely well through this enhanced distribution channel, which has been an important element in Montblanc’s development over the last four years.

Alfred Dunhill and Aston Martin have combined the very best in contemporary design with long established and traditional values in producing the limited edition Alfred Dunhill DB7.

SPECIALIST WATCH BRANDS – Vendôme's three specialist Swiss watch brands, each enjoying a high degree of expertise in their fields, continued to grow during the year under review.

Piaget achieved another year of growth based on its reputation as the only watchmaker dealing exclusively in gold and jewellery products. Products launched at the Geneva *Salon* included new versions of the popular *Protocole* and *Polo* models, leading to record orders at this exclusive event. The Piaget gold jewellery range was also extended further with a new range aimed at younger customers.

The watch collection of Baume & Mercier has undergone a significant change in the last few years and is now a competitive, focused range with successful watches for both men and women. The latest range of ladies' watches, the *Catwalk*, proved to be an immediate success. Other product developments included new models of popular existing ranges, such as the *Classima*.

Vacheron Constantin is the latest addition to Vendôme's Swiss watch brands and is the oldest, with continued production since 1755. Its first full year in the Group was marked by many important developments including a first appearance at the Geneva *Salon* during which the latest models were launched. Amongst these was the *1912* range, based on a model which was very popular at the turn of the century and which has been rejuvenated in a limited series of 1 912 pink and white gold pieces. The year has also seen changes in the organisation of the Vacheron Constantin group, including a new subsidiary company in Hong Kong, firmly positioning the brand for future growth in the region.

OTHER BRANDS – As far as Vendôme's other brands are concerned, each has been encouraged to continue its own development at its own pace. The major event amongst these brands in the year was the appointment of Stella McCartney as designer at Chloé. This popular young designer has been chosen to rejuvenate the Chloé collections of ready-to-wear and related accessories. The first Chloé collection under the guidance of Miss McCartney was presented in October 1997 to an enthusiastic public and the attention that this, and the second collection in March 1998, has generated should provide a platform for Chloé's future growth.

Hackett and Sulka, Vendôme's two menswear brands, have both had a successful year, sales increasing significantly in response to growing demand in their respective home markets.

For Officine Panerai, the specialist sub-aquatic watchmaker acquired in 1997, the year under review has been a period of preparation for international expansion in 1998. Seeger, a specialist leather brand, has experienced a difficult year in view of the slowdown in demand in the Far East. At Purdey, the main development has been the renovation of its store and headquarters at South Audley Street, in London.

Whilst committed to developing all of its brands, Vendôme's strategy continues to be to build upon its core businesses of jewellery, watches, writing instruments, leather goods and ready-to-wear clothing. Recent developments in the Group – the acquisition of Vacheron Constantin and Lancel and the creation of a manufacturing capacity in leather goods – have all reconfirmed this strategic direction. Together with continual improvement in the quality of the distribution network, this will ensure long-term growth in sales revenue and profitability for the Group.

Montblanc has built on the success of its range of writing instruments to launch complementary products. In 1997 the Meisterstück watch range was successfully introduced.

PAY TELEVISION

RICHEMONT holds a 15 per cent investment in Canal+ SA of France. This interest was acquired at the end of the previous financial year following the merger of the Group's pay television interests held through NetHold BV with Canal+.

Canal+ is Europe's leading pay television company, operating analogue and digital services in France, Spain, Italy, Scandinavia, the Benelux and Poland. At 31 December 1997, Canal+ had some 9.5 million subscribers in these territories.

France remains Canal+'s key market with over 5.3 million subscribers to the premium Canal+ service. Canalsatellite, the digital service delivered by satellite reported some 780 000 subscribers by year-end, surpassing initial estimates. It is the leading digital service in the French market offering 50 French language channels, 20 major foreign channels and 50 radio stations all in CD quality sound. Subscribers also have access to 15 interactive services, offering Internet access and software downloading possibilities, as well as pay-per-view movies and sports events. Digital technology has allowed Canal+ to expand its programme offering and broaden the service it provides to its subscribers.

Subscriber numbers grew in the company's other principal markets during the year. Canal+ Spain grew to 1.4 million subscribers, in line with expectations despite a difficult competitive environment. Also in Spain, the Canal Satelite venture, in which Canal+ holds a 25 per cent interest, performed in excess of expectations, over 500 000 homes taking the service. In Italy, Canal+ relaunched the terrestrially broadcast Telepiù channels under the Tele+ banner, continuing the emphasis on sporting coverage whilst increasing the Italian content of movies and other programming. Subscriber numbers grew to 870 000 by year-end. The Italian digital service was also relaunched under the name D+ offering a bouquet of 20 television channels, radio services and coverage of the Italian football league matches on a season ticket basis, allowing subscribers to follow their chosen team live throughout the season.

Excluding the effect of exceptional items and goodwill amortisation, Canal+ reported a net loss for its financial year ended 31 December 1997 of FFrs 611 million compared to a profit of FFrs 863 million in the prior year. The additional costs involved in the expansion of the digital services and the effects of the merger of the operations in the former NetHold territories are major elements in arriving at the loss for the year and management have indicated that they expect to see a significant improvement in the results in 1999, the performance in 1998 being anticipated to be in line with 1997. Richemont's share of Canal+'s operating losses before exceptional items and goodwill amortisation for the nine month period from the date of the merger in April 1997 to 31 December 1997 was some £ 17 million. In addition to the results of Canal+'s operations during this period, Richemont has also accounted for its share of the exceptional items reported by the company. Principal amongst these is the exceptional gain reported by Canal+ on the disposal of its 37.5 per cent interest in Première, the German pay television channel.

Digital technology has allowed Canal+ to expand its programme offering and broaden the service it provides to its subscribers.

DIRECT RETAILING

RICHEMONT'S interest in direct retailing is held through a 48 per cent interest in Hanover Direct Inc, one of the leading direct to home catalogue retailers in the United States.

Hanover Direct has reported substantially improved results in its financial year ended 31 December 1997. Operating losses, before goodwill amortisation, were reduced to US$ 1 million compared to a loss of US$ 75 million, before exceptional write-offs, in the prior year.

The company's balance sheet was strengthened by a rights issue in May 1997, as a consequence of which Richemont acquired a direct interest of 20 per cent in the company. Together with the interest held through NAR Group Limited, in which Richemont held a 50 per cent interest, Richemont's effective interest in Hanover Direct amounted to some 44 per cent, following the rights issue. Subsequent to the end of the financial year, the interest in Hanover Direct held by NAR Group Limited has been distributed to its shareholders and Richemont's direct interest in Hanover Direct is currently some 48 per cent.

During the year, Hanover Direct has reorganised and strengthened its management team and introduced a new business philosophy.

The new business formula has enabled the company to improve the impact of its marketing strategy; this has been achieved by the more effective use of its customer database, enabling catalogues to be targeted to specific customer groups and their buying preferences. Frequency of purchases has been improved by imaginative membership programmes and by improved telemarketing.

Costs have been reduced substantially across the company without sacrificing any of its strategic objectives or growth opportunities; a major source of savings being the successful consolidation of distribution operations at the company's fulfilment centre in Roanoke, Virginia. Hanover Direct's information technology based systems – telemarketing, fulfilment, purchasing, distribution and administration – have been standardised across all catalogue titles resulting in significant cost savings and efficiency gains.

Electronic commerce is opening up new opportunities for Hanover Direct. Products from all of the company's catalogues can now be ordered on-line from their respective Internet web-sites. This will be an important avenue for future growth.

Hanover Direct, based upon the improvements seen in 1997, is set to consolidate its gains, tighten further its management disciplines and continue to refine its operations. It will present its customers with more attractive merchandise offerings, at competitive prices, in a user-friendly shopping environment backed by state of the art systems and higher standards of customer service.

Over 900 customer service agents operate from Hanover Direct's three telemarketing centres. State of the art technology helped reduce busy signals to customers to zero by the end of 1997.

THE GROUP produced a good financial performance during the year under review, particularly in view of the strength of sterling, the Group's reporting currency, during the period. Richemont's tobacco and luxury goods businesses showed strong underlying growth and operating profit benefited from the significantly lower level of losses within the Group's pay television interests.

OPERATING RESULTS BY BUSINESS SEGMENT

	At actual exchange rates	At constant exchange rates	
	1998	**1998**	1997
	£ m	**£ m**	£ m
Sales revenues			
Tobacco	**3 171.9**	**3 635.6**	3 300.1
Luxury goods	**1 490.4**	**1 635.4**	1 455.7
	4 662.3	**5 271.0**	4 755.8
Operating profit			
Tobacco	**806.1**	**922.7**	795.9
Luxury goods	**240.6**	**258.3**	243.3
Other	**(0.5)**	**(0.5)**	(2.0)
The Company and its subsidiary undertakings	**1 046.2**	**1 180.5**	1 037.2
Share of associated undertakings	**(1.8)**	**(3.9)**	(83.0)
Tobacco	**14.8**	**15.7**	14.1
Pay television	**(16.9)**	**(19.9)**	(81.0)
Direct retailing	**0.3**	**0.3**	(16.1)
	1 044.4	**1 176.6**	954.2

The Group's results for the year under review have been adversely impacted by the strength of sterling. Net sales revenue at constant rates of £ 5 271.0 million was reduced by £ 608.7 million to £ 4 662.3 million at actual rates. At constant exchange rates, the Group's operating profit reflected growth of 23.3 per cent to £ 1 176.6 million. Applying actual rates of exchange to translate the results of group companies not reporting in sterling necessitates an adjustment of £ 132.2 million to bring operating profit to £ 1 044.4 million. This represents an increase of 9.5 per cent over the prior year.

The currency impact is most significant in terms of the results reported by Rothmans International where operating profit (excluding the results of associates) would show an increase of 15.9 per cent to £ 922.7 million at constant rates but reflected growth of only 1.3 per cent at actual rates. Within Vendôme Luxury Group, operating profit in terms of Swiss francs, Vendôme's reporting currency, increased by 15.2 per cent to SFr 577.5 million. At actual exchange rates, however, Vendôme's operating profit in sterling terms decreased marginally to £ 240.6 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT	1998	1997
	£ m	£ m
Operating profit at constant exchange rates	**1 176.6**	954.2
Adjustment to actual rates	**(132.2)**	–
Operating profit at actual exchange rates	**1 044.4**	954.2
Net investment expense	**(43.6)**	(39.4)
Profit before taxation	**1 000.8**	914.8
Taxation	**(298.0)**	(308.5)
Profit after taxation	**702.8**	606.3
Minority interests	**(316.8)**	(303.4)
Profit attributable to unitholders	**386.0**	302.9
Earnings per unit	**£ 67.22**	£ 52.75

Consolidated Profit and Loss Account – To facilitate a comparison of the Group's results against last year, the summary profit and loss account set out above is presented on an adjusted basis, which excludes the effects of exceptional items and goodwill amortisation from the results for both years.

Net Investment Expense – Net investment expense increased from £ 39.4 million to £ 43.6 million, reflecting principally an increase of £ 18.8 million at Rothmans International. This was, however, largely offset by lower costs of borrowing within the Group's media interests. Net investment income at Vendôme Luxury Group fell by £ 3.3 million, largely as a result of cash outflows in respect of acquisitions.

Taxation – The effective taxation rate fell from 33.7 per cent to 29.8 per cent. This was largely due to a substantial reduction in the level of non-tax-effective losses reported by associated companies, with the effective tax rates reported by Rothmans International and Vendôme Luxury Group remaining essentially unchanged at 31 per cent and 25 per cent, respectively.

Attributable Profit – Notwithstanding the adverse impact of the strength of the sterling, profit attributable to unitholders and earnings per unit increased by 27.4 per cent to £ 386.0 million and £ 67.22, respectively.

The key exchange rates used for the translation of results of companies not reporting in sterling are detailed in the table below:

AVERAGE EXCHANGE RATES AGAINST STERLING	1998	1997	
Swiss franc	**2.40**	2.06	+16.5 %
German mark	**2.91**	2.46	+18.3 %
United States dollar	**1.64**	1.59	+ 3.1 %
Australian dollar	**2.30**	2.01	+14.4 %
South African rand	**7.75**	7.14	+ 8.5 %
Malaysian ringgit	**5.23**	3.97	+31.7 %

Dividend – The Board of Directors of Richemont SA has proposed an increase of 22.3 per cent in terms of the dividend payable to unitholders. The dividend will therefore amount to £ 11.50 in respect of the year under review. The dividend will be payable, free of withholding taxes, on Monday 28 September 1998.

In accordance with its policy of reserve accumulation, the Board of Compagnie Financière Richemont AG has decided not to propose an additional dividend in respect of its own share capital for the year under review; the total dividend for the year will therefore amount to £ 11.50 per unit.

Goodwill – Richemont's accounting policy, in accordance with International Accounting Standards, is to capitalise and subsequently amortise goodwill through the consolidated profit and loss account over its estimated useful life, up to a maximum period of 20 years. The Group's goodwill amortisation charge at the attributable profit level for the year ended 31 March 1998, was £ 90.8 million (1997: £ 81.0 million). A proportion of this charge, however, related to goodwill arising on acquisitions made by the Group's associated undertakings. Such goodwill is capitalised within the balance sheet of the associate concerned and consequently, following the principles of equity accounting, appears in the Richemont consolidated balance sheet as part of investments in associated undertakings. Of the goodwill amortisation charge referred to above, £ 9.3 million (1997: £ 17.9 million) related to goodwill which has been capitalised by associated undertakings.

The majority of acquisitions made by Group companies involve substantial values being attributed to intangible assets. In view of the difficulty of accurately separating acquired brands and trade marks from the other intangible assets of acquired businesses, Richemont has elected to categorise all such acquired intangibles as goodwill. International Accounting Standards require that this goodwill be amortised through the Group's profit and loss account each year. In consequence, although Richemont believes the level of marketing expenditure invested each year should increase rather than decrease the value of its intangible assets, the Group's earnings are adversely impacted by a significant goodwill amortisation charge. In this regard, the Group's results are presented on both a reported and adjusted basis, the latter excluding the effects of goodwill amortisation.

To facilitate the comparison of the Group's results against last year, the profit and loss account set out below is presented on both a reported and an adjusted basis. The latter excludes the effects of exceptional items and goodwill amortisation from the results for both years.

PROFIT AND LOSS ACCOUNT

	Year ended 31 March 1998			Year ended 31 March 1997		
	Reported results £ m	**Adjust-ments £ m**	**Adjusted results £ m**	Reported results £ m	Adjust-ments £ m	Adjusted results £ m
Operating profit	**1 044.4**	**–**	**1 044.4**	954.2	–	954.2
Goodwill amortisation	**(120.3)**	**120.3**	**–**	(111.0)	111.0	–
Exceptional items	**34.9**	**(34.9)**	**–**	291.5	(291.5)	–
Profit before net investment expense and taxation	**959.0**	**85.4**	**1 044.4**	1 134.7	(180.5)	954.2
Net investment expense	**(43.6)**	**–**	**(43.6)**	(39.4)	–	(39.4)
Profit before taxation	**915.4**	**85.4**	**1 000.8**	1 095.3	(180.5)	914.8
Taxation	**(299.1)**	**1.1**	**(298.0)**	(308.5)	–	(308.5)
Profit after taxation	**616.3**	**86.5**	**702.8**	786.8	(180.5)	606.3
Minority interests	**(286.9)**	**(29.9)**	**(316.8)**	(273.4)	(30.0)	(303.4)
Profit attributable to unitholders	**329.4**	**56.6**	**386.0**	513.4	(210.5)	302.9
Earnings per unit	**£ 57.37**	**£ 9.85**	**£ 67.22**	£ 89.41	£ (36.66)	£ 52.75

Goodwill Amortisation – The results on a reported basis, in both the current and prior years, have been impacted by the Group's accounting policy of amortising goodwill through the consolidated profit and loss account. The goodwill amortisation charge at the pre-tax profit level for the year ended 31 March 1998 was £ 120.3 million (1997: £ 111.0 million). At the attributable profit level, after deduction of minority interests, the amortisation charge amounted to £ 90.8 million (1997: £ 81.0 million).

Exceptional Items – The exceptional gain of £ 34.9 million in the year to 31 March 1998 represented Richemont's 15 per cent share of Canal+'s exceptional items, being primarily the profit arising on the disposal of its interest in Première, the German pay television channel. Canal+ included in its results a capital gain of the French franc equivalent of £ 232.9 million, mainly consisting of the gain generated by the sale of Première, partially offset by its share of the losses attributable to its supplementary 45 per cent interest in Telepiù which is held for resale. The Group's attributable share of the net exceptional gain was £ 34.2 million after taxation and minority interests.

The results for the year ended 31 March 1997 included an exceptional gain of £ 291.5 million which arose on the merger of Canal+ and the European operations of NetHold. The transaction had been accounted for as the effective disposal of Richemont's interest in NetHold in return for an equity interest in the enlarged Canal+.

ANALYSIS OF RESULTS BY AREA OF ACTIVITY – The following pages summarise the performance and present the profit and loss accounts of Richemont's tobacco and luxury goods operating companies, Rothmans International and Vendôme Luxury Group.

ROTHMANS INTERNATIONAL – ANALYSIS OF SALES AND OPERATING PROFIT

	Net sales revenue			Operating profit		
	At actual exchange rates	**At constant exchange rates**		**At actual exchange rates**	**At constant exchange rates**	
	1998	**1998**	1997	**1998**	**1998**	1997
	£ m	**£ m**	£ m	**£ m**	**£ m**	£ m
Europe	**1 369.4**	**1 595.5**	1 412.3	**244.6**	**279.1**	249.4
Africa and the Middle East	**693.4**	**743.9**	675.1	**225.2**	**243.0**	236.0
Americas	**299.6**	**316.5**	304.7	**99.3**	**105.5**	93.5
Asia	**475.8**	**590.2**	540.1	**139.8**	**185.9**	143.7
Pacific	**333.7**	**389.5**	367.9	**97.2**	**109.2**	73.3
Rothmans International and its subsidiary undertakings	**3 171.9**	**3 635.6**	3 300.1	**806.1**	**922.7**	795.9
Share of associated undertakings				**14.8**	**15.7**	14.1
Total				**820.9**	**938.4**	810.0

TOBACCO – The table set out above presents an analysis of the sales and operating results of Rothmans International by geographic region at both actual exchange rates and constant 1997 rates.

Sales volumes increased by over 3 per cent in the year under review. The principal gain arose in France, where cigarette volumes increased by 40 per cent, with further volume growth being achieved in Rothmans International's development markets, in particular in Central & Eastern Europe, Indonesia, Spain, Vietnam and in Malaysia. However, volumes declined in several of the Group's established markets, notably South Africa, reflecting the overall market contraction as a result of the draconian level of excise tax increases, and in Germany.

Operating profit at constant exchange rates increased by £ 128.4 million (15.9 per cent) to £ 938.4 million with growth in all regions but with particular improvements in Europe, Asia and the Pacific. The key factors affecting the operating profit in each geographical region are summarised below:

- In Europe, operating profit benefited from higher volumes, particularly in France following the continued success of Winfield, together with price increases. These more than offset the increased investment in marketing, particularly in Central & Eastern Europe. In addition, the results reflect a full twelve months' contribution from Burrus, the Group's Swiss subsidiary acquired in June 1996, which contributed to the Group's results for the final nine months of the previous financial year.

- Operating profit in Africa and the Middle East largely reflected increases in South Africa as volume losses were compensated by improved margins, albeit offset by lower profitability in other markets as a consequence of difficult trading conditions.
- Increased sales of cigars in the United States combined with price increases in Canada to produce satisfactory growth in operating profit in the Americas region.
- Lower costs and price increases resulted in higher profitability in Malaysia, although operating profits in Singapore were virtually unchanged. Sales volumes in China were disappointing as a result of over-supply in the market.
- The substantial improvement in the Pacific region was due to an increase in market share in Australia, supplemented by a windfall excise duty gain amounting to £ 37.0 million in constant exchange rate terms.

ROTHMANS INTERNATIONAL – PROFIT AND LOSS ACCOUNT

	At actual exchange rates 1998 £ m	At constant exchange rates 1998 £ m	1997 £ m
Operating profit	**820.9**	**938.4**	810.0
Net investment expense	**(49.4)**	**(48.6)**	(30.6)
Profit before taxation	**771.5**	**889.8**	779.4
Taxation	**(237.7)**	**(273.8)**	(242.7)
Profit after taxation	**533.8**	**616.0**	536.7
Minority interests	**(124.8)**	**(147.1)**	(122.1)
Profit attributable to shareholders	**409.0**	**468.9**	414.6
Profit attributable to Richemont (66.7%)	**272.7**	**312.6**	276.4

Note: excludes goodwill amortisation.

Net investment expense increased by £ 18.8 million to £ 49.4 million at actual exchange rates, primarily as a result of financing additional short-term working capital requirements, principally in the United Kingdom. The effective rate of taxation was largely unchanged at 30.8 per cent.

Minority interests increased by £ 2.7 million to £ 124.8 million mainly due to higher profits in the partly owned operations of the Pacific region.

At constant exchange rates, profit attributable to shareholders, excluding goodwill amortisation, would have increased by 13.1 per cent. However, at actual exchange rates attributable profit was £ 5.6 million (1.4 per cent) lower at £ 409.0 million, reflecting the impact of sterling's strength on operating profit. Allowing for the fact that 33.3 per cent of these profits are attributable to Rembrandt Group Limited's minority shareholding in Rothmans International, profit attributable to Richemont amounted to £ 272.7 million at actual rates.

LUXURY GOODS – The following table, which presents the financial results of Vendôme Luxury Group for the years ended 31 March 1997 and 1998, shows turnover and operating profit in both Swiss francs, Vendôme's reporting currency, and sterling.

VENDÔME LUXURY GROUP – PROFIT AND LOSS ACCOUNT

	1998	1997	**1998**	1997
	SFr m	SFr m	**£ m**	£ m
Net sales revenue	**3 576.9**	2 998.8	**1 490.4**	1 455.7
Operating profit at actual exchange rates	**577.5**	501.1	**240.6**	243.3
Net investment income	**5.7**	11.8	**2.4**	5.7
Profit before taxation	**583.2**	512.9	**243.0**	249.0
Taxation	**(145.2)**	(127.5)	**(60.5)**	(61.9)
Profit after taxation	**438.0**	385.4	**182.5**	187.1
Minority interests	**(6.8)**	(1.7)	**(2.8)**	(0.8)
Profit attributable to unitholders	**431.2**	383.7	**179.7**	186.3
Profit attributable to Richemont (70%)	**301.8**	268.6	**125.8**	130.4

Note: excludes goodwill amortisation.

Expressed in Swiss francs, Vendôme's sales increased by 19.3 per cent during the year under review. The main contributors were Europe, where sales were up 26.9 per cent, and the Americas, which showed a 25.2 per cent increase. Sales in the Far East increased by 8.7 per cent in an increasingly difficult environment. This was characterised by a weak yen leading to reduced Japanese tourism, an uncertain environment in Hong Kong following the stock market crisis at the end of last year and difficulties in certain South East Asian markets as a result of the currency crisis in the region. Nevertheless, on an overall basis, strong jewellery and watch sales in all regions, particularly through the Company's own retail network, maintained Vendôme's overall growth.

Operating profit in Swiss francs was 15.2 per cent higher than last year, reflecting the benefits of the increased investment made by all of the Company's brands in structural costs and in advertising and publicity. Investments in the structure of Vendôme, such as personnel development and the improvement of the retail network, are an important element in the group's strategy of developing long-term growth in turnover and operating profit. On the commercial side, the year saw many important events, such as the 150th anniversary of Cartier and the launch of the Montblanc watch range. These were supported by significant marketing investments.

Net investment income decreased in the year largely due to the utilisation of cash resources for the acquisitions of Vacheron Constantin and Lancel in the last 18 months. Interest earned on cash funds held largely in Swiss francs and German marks decreased in line with lower interest rates. Conversely, borrowings in local currencies to finance expansion in various territories were adversely impacted by higher interest rates.

The effective taxation charge for the year is in line with last year at around 25 per cent. Minority interests have increased as a result of the Lancel acquisition. Profit attributable to unitholders in Swiss franc terms shows an increase of 12.4 per cent over last year, mirroring the increase in operating profits and the higher minority interest charge.

The acquisition of the minority unitholders' interests in Vendôme Luxury Group has been accounted for with effect from the end of the financial year. Accordingly, the transaction has had no impact on the profit and loss account for the period. Allowing for the 30 per cent share of profit attributable to the minority unitholders, Richemont's 70 per cent share of Vendôme's attributable profit amounted to SFr 301.8 million.

Acquisition of the Vendôme Minorities – The acquisition of the minority unitholders' interest in Vendôme Luxury Group was announced in November 1997 and became effective immediately prior to the end of the financial year. The bid, at £ 4.95 per Vendôme unit, represented a premium of 26 per cent to the then prevailing market price and valued Vendôme at £ 3 454 million. The overall cost of the 30 per cent interest acquired by Richemont was valued at £ 1 053 million.

The acquisition was funded in almost equal parts by internal funds within Richemont and Vendôme on the one hand and through a five year Swiss franc syndicated loan facility on the other. Borrowings under the facility have been incurred by the vehicle established to hold Vendôme's various businesses on an ongoing basis. The balance sheet of Vendôme presented on the following page reflects the drawdown of the Swiss franc equivalent of some £ 510 million under the syndicated loan facility. In addition, Richemont has contributed a further £ 125 million to Vendôme to part finance the buy-out.

BALANCE SHEET – Excerpts from the Group's balance sheet analysed between the principal business segments are set out below. The net operating assets of Rothmans International and Vendôme Luxury Group are analysed on the following page.

SUMMARY BALANCE SHEET AT 31 MARCH 1998

	Rothmans	Vendôme	Richemont	Total	1997
	£ m	£ m	£ m	£ m	£ m
Net operating assets	**1 396.0**	**651.7**	**376.1**	**2 423.8**	2 284.7
Goodwill	**1 634.4**	**863.6**	**259.9**	**2 757.9**	2 001.8
Net cash/(borrowings)	**(1 100.8)**	**(546.0)**	**19.4**	**(1 627.4)**	(409.3)
Cash and cash equivalents	**(139.6)**	**(26.8)**	**19.4**	**(147.0)**	737.6
Long-term borrowings	**(961.2)**	**(519.2)**	**–**	**(1 480.4)**	(1 146.9)
Other long-term liabilities	**(454.7)**	**(50.0)**	**–**	**(504.7)**	(542.2)
	1 474.9	**919.3**	**655.4**	**3 049.6**	3 335.0

Rothmans International – The reduction in long-term borrowings is largely attributable to the impact of foreign currency movements in European currency denominated debt. Other long-term liabilities principally include obligations in respect of post retirement benefits together with deferred taxation and other long-term provisions.

Vendôme Luxury Group – As noted above, the balance sheet of Vendôme at 31 March 1998 reflects the acquisition of the minority interests which became effective shortly prior to the end of the financial year. The overall increase in goodwill of £ 811.4 million in comparison to the prior year reflects the goodwill arising in respect of the buy-out of some £ 700 million together with goodwill arising on the acquisition of Lancel, net of the amortisation charge for the year.

Net borrowings at 31 March 1998 equally reflect the effect of the buy-out both in terms of reduced cash resources and the debt incurred by the new holding company for the former Vendôme businesses in order to fund the buy-out.

Richemont – The net operating assets of Richemont comprise principally its investments in associated companies, being its 15 per cent interest in Canal+ SA and its 48 per cent interest in Hanover Direct, Inc. During the year under review, Richemont incurred additional goodwill at the parent company level in respect of the acquisition of a further 20 per cent interest in Hanover Direct. Notwithstanding the contribution of £ 125.0 million to the buy-out vehicle for the Vendôme businesses, Richemont's closing net cash position at the parent company level reflected net funds of £ 19.4 million.

Rothmans International – Summary balance sheet

	1998	1997
	£ m	£ m
Fixed assets		
Tangible assets	**484.7**	518.6
Investments in associated undertakings	**47.7**	46.2
Other long-term investments	**47.7**	48.8
	580.1	613.6
Net working capital	**815.9**	604.5
Net operating assets	**1 396.0**	1 218.1

Rothmans International – The major year on year change in the balance sheet is the higher level of working capital, mainly due to increased holdings of stocks in the United Kingdom. In line with the rest of the UK tobacco industry, the Group increases its holding of stocks immediately prior to the UK fiscal budget. For the year ended 31 March 1997 the UK fiscal budget was in November 1996, and therefore by the end of the financial year stock holdings had been reduced. Following the change in UK Government, the UK fiscal budget has moved to March, and therefore the Group held a high level of stocks as at 31 March 1998.

Vendôme Luxury Group – Summary balance sheet

	1998	1997	1998	1997
	SFr m	SFr m	**£ m**	£ m
Fixed assets				
Tangible assets	**457.2**	417.3	**179.3**	176.1
Long-term investments	**135.0**	122.9	**52.9**	51.9
	592.2	540.2	**232.2**	228.0
Net working capital	**1 069.6**	1 215.0	**419.5**	512.6
Net operating assets	**1 661.8**	1 755.2	**651.7**	740.6

Vendôme Luxury Group – Long-term investments primarily represent the Cartier, Piaget and Alfred Dunhill collections of special items with historical significance. Working capital decreased in the year largely due to increased creditor balances following the acquisition of Lancel and increased production integration.

CASH FLOW STATEMENT – Richemont's tobacco and luxury goods businesses remain highly cash generative, notwithstanding the significant increase in working capital in the year within Rothmans International. This was largely due to planned increases in stock levels within the United Kingdom.

SUMMARY CASH FLOW STATEMENT

	1998	1997
	£ m	£ m
Cash generated from operating activities		
Rothmans International	**631.6**	660.0
Vendôme Luxury Group	**331.6**	305.5
Payment to Canal+ (NetHold valuation adjustment)	**(26.9)**	–
Other	**(17.6)**	(9.3)
	918.7	956.2
Returns on investments and servicing of finance	**(43.6)**	(10.6)
Taxation paid	**(290.5)**	(356.6)
Net acquisition of tangible fixed assets	**(164.5)**	(196.3)
Acquisition of Vendôme Luxury Group public minorities	**(1 053.0)**	–
Other acquisitions of subsidiary and associated undertakings, minority interests and investments	**(156.8)**	(269.3)
Net cash inflow/(outflow) before financing activities	**(789.7)**	123.4
Financing activities	**554.4**	227.8
Dividends paid	**(393.5)**	(258.0)
Net cash inflow/(outflow) after financing activities	**(628.8)**	93.2
Exchange rate effects	**(255.8)**	(185.5)
Decrease in cash and cash equivalents	**(884.6)**	(92.3)
Cash and cash equivalents – opening	**737.6**	829.9
Cash and cash equivalents – closing	**(147.0)**	737.6
Long-term borrowings	**(1 480.4)**	(1 146.9)
Net borrowings	**(1 627.4)**	(409.3)

Net acquisitions of fixed assets in the year relate largely to Rothmans International's completion of its tobacco factory in St. Petersburg, Russia and expenditure incurred on the new tobacco research centre in Milton Keynes in the United Kingdom. In addition, Vendôme Luxury Group continued to invest in the expansion of its retail network and in enhancing its production capacity.

Acquisitions of subsidiary and associated undertakings, minority interests and investments fell substantially in comparison to the year to 31 March 1997, due largely to the acquisition of Burrus in the prior year. The current year's acquisitions included Vendôme's purchase of Lancel and Richemont's increased holding in Hanover Direct.

Set out below are the cash flow analyses of Rothmans International and Vendôme Luxury Group, the principal subsidiaries of the Group.

ROTHMANS INTERNATIONAL
CASH FLOW FROM OPERATIONS

	1998	1997
	£ m	£ m
Operating profit (including associated undertakings)	**820.9**	810.0
Depreciation (excluding goodwill amortisation)	**75.1**	86.8
Earnings before interest, tax, depreciation and amortisation	**896.0**	896.8
Other non-cash items	**(19.9)**	(48.1)
(Increase) in working capital	**(244.5)**	(188.7)
Cash generated from operating activities	**631.6**	660.0

VENDÔME LUXURY GROUP
CASH FLOW FROM OPERATIONS

	1998	1997	1998	1997
	SFr m	SFr m	£ m	£ m
Operating profit	**577.5**	501.1	**240.6**	243.3
Depreciation (excluding goodwill amortisation)	**83.1**	74.8	**34.7**	36.3
Earnings before interest, tax, depreciation and amortisation	**660.6**	575.9	**275.3**	279.6
Other non-cash items	**8.0**	10.3	**3.3**	5.0
Decrease in working capital	**127.2**	43.2	**53.0**	20.9
Cash generated from operating activities	**795.8**	629.4	**331.6**	305.5

INVESTMENTS IN ASSOCIATED COMPANIES – In addition to its tobacco and luxury goods businesses, Richemont also holds interests in pay television and direct retailing.

PAY TELEVISION – Following the merger of NetHold and Canal+ at the end of March 1997, the Group's results for the year to March 1998 include Richemont's 15 per cent share of Canal+'s results. Richemont's share of operating losses from pay television decreased from £ 81.0 million in the previous year to £ 16.9 million in the year under review. Richemont's results for the year to March 1998 incorporate Canal+'s results for the nine months to December 1997, Canal+'s financial year end.

Subsequent to the completion of the merger of NetHold and Canal+, a potential shortfall in subscriber numbers at Telepiù, the Italian pay television operator in which NetHold held a 45 per cent interest, was discovered. Agreement was reached in December 1997 between Canal+, Richemont and Richemont's co-investors in NetHold as to an adjustment to the value of the NetHold assets merged with Canal+ and a payment of $ 75.0 million was made to Canal+. Richemont's share of this settlement was adequately covered by general provisions and has had no impact on the Group's results for the year.

Excluding the effect of exceptional items and goodwill amortisation, Canal+ reported a net operating loss for its financial year ended 31 December 1997, reflecting the additional costs involved in the launch of digital services and losses in the former NetHold territories. Richemont's share of Canal+'s operating losses before exceptional items and goodwill amortisation for the nine month period ended 31 December 1997 was £ 16.9 million.

Richemont's share of Canal+'s exceptional items, largely reflecting the gain realised on the disposal of its interest in Première, the German pay television operator, amounted to £ 34.9 million before taxation and minority interests.

DIRECT RETAILING – In May 1997 Richemont acquired a direct interest of some 20 per cent in the common stock of Hanover Direct pursuant to a rights issue. In addition, Richemont held a further interest in Hanover Direct through NAR Group Limited during the year under review. By agreement between the shareholders of NAR, the Hanover Direct shares held by NAR have been distributed to the shareholders at 31 March 1998. In consequence, Richemont now holds a direct interest of some 48 per cent in Hanover Direct.

In its financial year ended December 1997, Hanover Direct reported significantly reduced operating losses, reflecting the company's new operating plan and business formula. The positive results further reflect the operational improvements at Hanover Direct's fulfilment centre in Roanoke, Virginia, the focus of its facility consolidation plans. Richemont's share of Hanover Direct's net operating result for the year amounted to £ 0.3 million.

C O N S O L I D A T E D F I N A N C I A L S T A T E M E N T S

DIRECTORS' REPORT

The Board of Directors of Compagnie Financière Richemont AG ('Richemont' or 'the Company') is pleased to submit its report on the activities of the Company and its subsidiary and associated undertakings (together, 'the Group') for the year ended 31 March 1998. The consolidated financial statements on the following pages set out the financial position of the Group at 31 March 1998 and the results and cash flows of its operations for the year then ended. The financial statements of the Company are presented on pages 59 to 64.

The agenda for the Annual General Meeting, which is to be held in Zug on 10 September 1998, is set out on page 77.

Further information on the Group's activities during the year under review and a commentary on the consolidated financial statements are contained in the Review of the Year on pages 10 to 23 and the Financial Review on pages 24 to 36. Details of the Company's underlying investments are given in the schedule of Principal Group Companies on pages 72 and 73. These investments are principally held through the Company's wholly-owned subsidiary Richemont SA, Luxembourg.

General

The financial statements are prepared in accordance with the Accounting and Reporting Recommendations as issued by the Foundation for Accounting and Reporting Recommendations in Switzerland. The accounting policies of the Group also conform with International Accounting Standards as issued by the International Accounting Standards Committee. The financial statements are presented in pounds sterling.

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings together with the Group's share of the results and retained post-acquisition reserves of associated undertakings.

Subsidiary undertakings are defined as those undertakings which are controlled by the Group. Control of an undertaking most commonly exists when the Company holds, directly or indirectly through other subsidiary undertakings, more than 50 per cent of the ordinary share capital and voting rights of the undertaking. An undertaking in which the Company holds, directly or indirectly through other subsidiary undertakings, between 20 per cent and 50 per cent of the ordinary share capital and voting rights is also accounted for as a subsidiary undertaking if the Group is able to exercise a dominant influence over the undertaking. The accounts of subsidiary undertakings are generally drawn up at 31 March of each year. Where audited accounts are not drawn up to this date, the amounts are arrived at by reference to the last audited accounts available.

Associated undertakings are defined as those undertakings, not classified as subsidiary undertakings, where the Group is able to exercise a significant influence. Associated undertakings are accounted for under the equity method. The Group's share of the results and attributable net assets of associated undertakings are derived from accounts drawn up at 31 March of each year. Where audited accounts are not drawn up to this date, the amounts are arrived at by reference to the last audited accounts available.

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

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies, including investments in associated undertakings, are translated into pounds sterling at exchange rates prevailing at the balance sheet date. For consolidation purposes, the share capital of the Company is translated from Swiss francs into pounds sterling at the historical rate. The earnings of those undertakings in the Group, including associated undertakings, whose accounts are denominated in foreign currencies are translated into pounds sterling at the average exchange rates prevailing during the year. Exchange adjustments arising from the translation of assets and liabilities of subsidiary undertakings and investments in associated undertakings denominated in foreign currencies are credited or charged directly to consolidated reserves. Where foreign currency borrowing is used to hedge against investments denominated in foreign currency, the resultant exchange differences have also been recorded as movements in reserves. Other exchange differences, including those arising from currency conversions in the normal course of business, are credited or charged to profit for the year.

(D) GROSS SALES REVENUE

Gross sales revenue is the amount receivable by the Company and its subsidiary undertakings from sales to third parties. The amount receivable includes value added taxes, duties and other sales taxes, but is stated after deducting trade discounts.

(E) TAXATION

Provision is made in each accounting period for all taxation expected to be payable in respect of profits earned to the end of the period, including taxation on dividends ordinarily expected to be payable within the Group out of such profits.

Deferred taxation arises from timing differences between the recognition of certain items of income and expenditure for accounting and taxation purposes. Deferred taxation is accounted for using the liability method in respect of all material timing differences. Certain Group companies account for deferred taxation only in respect of timing differences that are expected to reverse in the foreseeable future – the difference between this and the above policy of full provision is not material.

(F) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the expected useful lives of the assets. Repairs and maintenance costs are charged to the profit and loss account when incurred.

The costs of fixed assets are depreciated over the expected useful lives of the assets, up to the limits of:

Freehold and leasehold buildings	50 years
Plant and machinery	15 years
Fixtures, fittings, tools and equipment	10 years

Freehold land and assets under construction are not depreciated.

Assets held under finance leases are capitalised and depreciated over their expected useful lives or, if shorter, the lease period. The liabilities corresponding to remaining capital payments under finance leases are included within creditors.

Rentals payable on assets held under operating leases are charged to the profit and loss account in the accounting period when the expense arises.

(G) GOODWILL

Where the consideration paid in respect of the Group's investment in subsidiary and associated undertakings is in excess of the fair value to the Group of the separable net assets acquired, the excess is regarded as goodwill. Goodwill is amortised through the consolidated profit and loss account on the straight-line basis over its estimated useful life, up to a maximum of 20 years.

(H) ADVERTISING, PROMOTION, RESEARCH, DEVELOPMENT, PATENTS AND TRADE MARK EXPENSES

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

(I) INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Investments in associated undertakings are stated 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 undertakings' operating results, goodwill amortisation, net interest and taxation charge is accounted for in the consolidated profit and loss account. The Group's share of reserve movements in associated undertakings is accounted for as movements in the consolidated reserves.

(J) OTHER LONG-TERM INVESTMENTS

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

(K) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. In general, cost is determined on a weighted average or 'first in first out' basis. The cost of manufactured products comprises material cost plus direct labour, a proportion of overheads attributable to the stage of production reached and, where applicable, duties and taxes.

(L) DEBTORS

Trade and other debtors are stated at face value net of provisions for amounts which are not expected to be recoverable in full.

(M) MARKETABLE SECURITIES

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

(N) PROVISIONS FOR EMPLOYEES' POST RETIREMENT BENEFITS

The Group operates various pension schemes around the world in accordance with local conditions and practices in the countries concerned. The major schemes are of the defined benefit type and are generally funded by payments to separate trustee administered funds or insurance companies. However, certain pension schemes for employees in Europe are unfunded and balance sheet provisions are carried representing the Group's liability to meet the future obligations of such schemes.

The cost of providing post retirement benefits is charged to the profit and loss account on a systematic basis, with surpluses or deficits arising allocated over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to external funds are treated as assets or liabilities.

(O) PRODUCT WARRANTIES

Provisions are made for warranty repair costs relating to the sale of certain products which are sold under international guarantee against mechanical faults.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1998

	Notes	1998 £ m	1997 £ m
Gross sales revenue		**9 800.1**	10 112.2
Duty, excise and sales taxes		**(5 137.8)**	(5 356.4)
Net sales revenue	2	**4 662.3**	4 755.8
Cost of sales		**(2 627.9)**	(2 735.5)
Gross profit		**2 034.4**	2 020.3
Net operating expenses	3	**(988.2)**	(983.1)
Operating profit of the Company and its subsidiary undertakings	3	**1 046.2**	1 037.2
Share of operating losses of associated undertakings	4	**(1.8)**	(83.0)
Operating profit		**1 044.4**	954.2
Goodwill amortisation		**(120.3)**	(111.0)
Share of Canal+ exceptional items	5	**34.9**	–
Gain on merger of media interests	6	**–**	291.5
Profit before net investment expense and taxation		**959.0**	1 134.7
Net investment expense	7	**(43.6)**	(39.4)
Profit before taxation		**915.4**	1 095.3
Taxation	8	**(299.1)**	(308.5)
Profit after taxation		**616.3**	786.8
Minority interests		**(286.9)**	(273.4)
Profit attributable to unitholders	9	**329.4**	513.4

A summary of profit attributable to unitholders on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items, is set out below:

	Notes	1998 £ m	1997 £ m
Analysis of profit attributable to unitholders			
Profit attributable to unitholders as reported		**329.4**	513.4
Goodwill amortisation		**90.8**	81.0
Share of Canal+ exceptional items		**(34.2)**	–
Gain on merger of media interests		**–**	(291.5)
Profit attributable to unitholders on an adjusted basis		**386.0**	302.9
		£	£
Earnings per unit	10		
Earnings per unit on a reported basis		**57.37**	89.41
Earnings per unit on an adjusted basis		**67.22**	52.75

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 1998

	Notes	1998 £ m	1997 £ m
ASSETS			
Fixed assets			
Tangible	11	**700.2**	717.7
Goodwill	12	**2 757.9**	2 001.8
		3 458.1	2 719.5
Investments			
Associated undertakings	13	**321.5**	379.2
Other long-term investments	14	**138.3**	108.9
		459.8	488.1
Net current assets			
Inventories	15	**1 839.2**	1 554.9
Debtors	16	**1 013.3**	1 073.1
Marketable securities	17	**120.5**	422.9
Cash		**410.4**	723.5
Current assets		**3 383.4**	3 774.4
Current liabilities	18	**(2 271.2)**	(1 963.2)
		1 112.2	1 811.2
		5 030.1	5 018.8
UNITHOLDERS' FUNDS			
Share capital	20	**223.2**	223.2
Participation reserve	21	**430.7**	430.7
Unitholders' capital	22	**653.9**	653.9
Retained earnings and other reserves	23	**1 776.7**	1 622.2
		2 430.6	2 276.1
MINORITY INTERESTS		**619.0**	1 058.9
LONG-TERM LIABILITIES			
Borrowings	24	**1 514.1**	1 181.8
Other	25	**466.4**	502.0
		1 980.5	1 683.8
		5 030.1	5 018.8

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1998

	Notes	1998 £ m	1997 £ m
Cash inflow from operating activities	28	**918.7**	956.2
Returns on investments and servicing of finance			
Interest income and similar items		**54.5**	83.7
Interest paid and similar items		**(107.8)**	(102.3)
Income from other long-term investments		**4.8**	4.3
Dividends from associated undertakings		**4.9**	3.7
Cash flow applied to returns on investments and servicing of finance		**(43.6)**	(10.6)
Taxation paid		**(290.5)**	(356.6)
Investing activities			
Acquisitions of tangible fixed assets		**(185.3)**	(215.2)
Proceeds from disposals of tangible fixed assets		**20.8**	18.9
Acquisitions of subsidiary undertakings, net of cash acquired	29	**(108.4)**	(279.4)
Proceeds from disposals of subsidiary undertakings, net of cash sold		**–**	0.6
Acquisition of Vendôme Luxury Group public minorities	29	**(1 053.0)**	–
Acquisitions of other minority interests	29	**(11.4)**	–
Acquisitions of associated undertakings		**(19.9)**	–
Proceeds from disposals of associated undertakings		**0.2**	8.3
Acquisitions of other long-term investments		**(22.2)**	(6.5)
Proceeds from disposals of other long-term investments		**4.4**	7.7
Cash flow applied to investing activities		**(1 374.8)**	(465.6)
Net cash inflow/(outflow) before financing activities		**(790.2)**	123.4
Financing activities			
New long-term borrowings		**702.9**	256.8
Repayments of long-term borrowings		**(140.2)**	(19.0)
Capital element of finance lease payments		**(7.8)**	(10.0)
Dividend paid on Richemont SA participation reserve		**(54.0)**	(45.9)
Amounts paid to minority interests		**(339.5)**	(212.1)
Cash flow generated from/(applied to) financing activities		**161.4**	(30.2)
Net cash inflow/(outflow) after financing		**(628.8)**	93.2
Effect of exchange rate movements		**(255.8)**	(185.5)
Net decrease in cash and cash equivalents		**(884.6)**	(92.3)
Cash and cash equivalents at beginning of year		**737.6**	829.9
Cash and cash equivalents at end of year	30	**(147.0)**	737.6

Note 1 – Principal changes in group structure

In November 1997 Richemont announced proposals to acquire the minority shareholders' interests in Vendôme Luxury Group. These proposals were approved by the shareholders of Vendôme Luxury Group in February 1998 and became effective on 25 March, 1998. Accordingly, the transaction is reflected in the balance sheet at 31 March, 1998 the effect being to increase both goodwill and debt with a corresponding reduction in minority interests. There is no impact on the profit and loss account for the year then ended.

Note 2 – Net sales revenue

The analysis of net sales revenue by business segment was as follows:

	1998	1997
	£ m	£ m
Tobacco	**3 171.9**	3 300.1
Luxury goods	**1 490.4**	1 455.7
	4 662.3	4 755.8

The analysis of net sales revenue by geographical area was as follows:

	1998	1997
	£ m	£ m
Europe	**1 958.2**	1 953.1
Asia Pacific	**1 356.9**	1 494.6
Middle East, Africa and India	**738.0**	715.4
Americas	**609.2**	592.7
	4 662.3	4 755.8

Note 3 – Operating profit

The analysis of net operating expenses was as follows:

	1998	1997
	£ m	£ m
Selling and distribution costs	**319.4**	295.6
Administration expenses	**684.0**	659.9
Other operating (income)/expenses	**(15.2)**	27.6
	988.2	983.1

The analysis of operating profit of the Company and its subsidiary undertakings by business segment was as follows:

	1998	1997
	£ m	£ m
Tobacco	**806.1**	795.9
Luxury goods	**240.6**	243.3
Other	**(0.5)**	(2.0)
Operating profit of the Company and its subsidiary undertakings	**1 046.2**	1 037.2

Note 3 – Operating profit (continued)

The segmental analysis of operating profit by geographical area has not been disclosed as the Directors are of the opinion that such disclosure would be prejudicial to the Group's competitive position.

Operating profit of the Company and its subsidiary undertakings includes the following items:

	1998	1997
	£ m	£ m
Depreciation of tangible fixed assets	**112.1**	124.7
Personnel expenses	**789.4**	800.3
Operating lease rentals	**112.6**	99.8

Note 4 – Share of results of associated undertakings

The Group's share of the results of associated undertakings is set out below. The Group's share of operating results, goodwill amortisation, net interest and taxation has been included under the respective headings in the consolidated profit and loss account.

	1998	1997
	£ m	£ m
Operating loss	**(1.8)**	(83.0)
Goodwill amortisation	**(9.3)**	(17.9)
Exceptional items	**34.9**	–
Net interest income/(expense)	**10.4**	(10.0)
Profit/(loss) before taxation	**34.2**	(110.9)
Taxation	**(6.0)**	(9.2)
Profit/(loss) after taxation	**28.2**	(120.1)
Other shareholders' interests	**1.2**	14.6
Dividends	**(4.8)**	(3.7)
Profit/(loss) retained for the year	**24.6**	(109.2)

Note 5 – Share of Canal+ exceptional items

The exceptional gain of £ 34.9 million in the year to 31 March 1998 represented Richemont's share of Canal+'s exceptional items, being primarily the disposal of its interests in Premiere, the German pay-tv channel. Canal+ included in its results a net capital gain of the French franc equivalent of £ 232.9 million, mainly consisting of the gain generated by the sale of Premiere, partially offset by Canal+'s share of the losses in its 45 per cent interest in Telepiù held for resale. The Group's attributable share of the exceptional gain was £ 34.2 million after taxation and minority interests.

Note 6 – Gain on merger of media interests

The exceptional gain on the merger of media interests in the year to 31 March 1997 represented the gain realised by Richemont on the merger of the European operations of NetHold with Canal+. The transaction has been accounted for as the effective disposal of the Group's interest in NetHold in return for an equity interest in the enlarged Canal+, resulting in a gain of £ 291.5 million.

Note 7 – Net investment expense

	1998	1997
	£ m	£ m
Interest income and similar items	**55.2**	73.0
Interest expense and similar charges	**(119.4)**	(106.9)
	(64.2)	(33.9)
Share of net interest income/(expense) of associated undertakings	**10.4**	(10.0)
	(53.8)	(43.9)
Income from other long-term investments	**10.2**	4.5
	(43.6)	(39.4)

Interest income and similar items includes £ 0.7 million (1997: £ 10.0 million) in respect of income from the Group's associated undertakings.

Note 8 – Taxation

	1998	1997
	£ m	£ m
Current taxation	**330.6**	307.2
Deferred taxation	**(37.5)**	(7.9)
	293.1	299.3
Share of taxation of associated undertakings	**6.0**	9.2
	299.1	308.5

At 31 March 1998, the Company and its subsidiary undertakings had taxation losses of £ 118.9 million (1997: £ 110.3 million) in respect of which taxation assets had not been recognised as the future utilisation of these losses is uncertain. Based on current rates of taxation, utilisation of these losses at 31 March 1998 would result in the recognition of a taxation asset of £ 31.2 million (1997: £ 27.5 million).

Note 9 – Profit attributable to unitholders

	1998	1997
	£ m	£ m
Attributable profit of the Company and its subsidiary undertakings	**304.8**	622.6
Group's share of profit/(loss) retained by associated undertakings	**24.6**	(109.2)
	329.4	513.4

Note 10 – Earnings per unit

Earnings per unit on a reported basis are calculated by reference to the profit attributable to unitholders of £ 329.4 million (1997: £ 513.4 million) and 5 742 000 units in issue (1997: 5 742 000).

Earnings per unit are also shown on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items. The exceptional items were the share of associates' exceptional gains in the year to 31 March 1998 and the gain on the merger of media interests with Canal+ in the previous year. The profit attributable to unitholders used for this calculation was £ 386.0 million (1997: £ 302.9 million).

Note 11 – Tangible fixed assets

	Land and buildings £ m	Plant and machinery £ m	Fixtures, fittings, tools and equipment £ m	Assets under construction £ m	Total £ m
Cost					
1 April 1997	**387.3**	**625.4**	**487.5**	**53.1**	**1 553.3**
Exchange adjustments	**(47.4)**	**(82.8)**	**(55.1)**	**(11.7)**	**(197.0)**
Additions	**10.5**	**38.5**	**80.4**	**57.5**	**186.9**
Acquisitions of subsidiaries	**1.8**	**1.1**	**3.6**	**–**	**6.5**
Transfers and reclassifications	**23.6**	**24.1**	**3.6**	**(51.3)**	**–**
Disposals and provisions	**(7.0)**	**(29.6)**	**(51.0)**	**–**	**(87.6)**
31 March 1998	**368.8**	**576.7**	**469.0**	**47.6**	**1 462.1**
Depreciation					
1 April 1997	**100.2**	**438.1**	**297.3**		**835.6**
Exchange adjustments	**(11.6)**	**(68.3)**	**(35.6)**		**(115.5)**
Charge for the year	**11.2**	**35.3**	**65.6**		**112.1**
Disposals and provisions	**(4.2)**	**(24.4)**	**(41.7)**		**(70.3)**
31 March 1998	**95.6**	**380.7**	**285.6**		**761.9**
Net book value					
1 April 1997	**287.1**	**187.3**	**190.2**	**53.1**	**717.7**
31 March 1998	**273.2**	**196.0**	**183.4**	**47.6**	**700.2**

Included above are fixed assets with a net book value of £ 13.2 million (1997: £ 21.3 million) held under finance leases.

The net book value of land and buildings at 31 March comprises:

	1998 £ m	1997 £ m
Freehold land	**36.0**	40.4
Freehold buildings	**182.2**	183.9
Long leaseholds	**37.9**	48.0
Short leaseholds	**17.1**	14.8
	273.2	287.1

The fire insurance value of fixed assets at 31 March 1998 was £ 2 599.0 million (1997: £ 2 702.9 million).

Authorised capital expenditure for which no provision has been made in these financial statements:

	1998 £ m	1997 £ m
Contracts placed	**34.3**	57.4
Authorised but not yet contracted	**93.0**	86.5
	127.3	143.9

Note 12 – Goodwill

	1998	1997
	£ m	£ m
Cost		
Balance at 1 April	**2 120.7**	1 681.0
Exchange adjustments	**(24.8)**	(12.0)
Goodwill arising in the year	**891.1**	479.5
Disposals	**–**	(27.8)
Balance at 31 March	**2 987.0**	2 120.7
Amortisation		
Balance at 1 April	**118.9**	34.2
Exchange adjustments	**(0.7)**	(0.9)
Charge for the year	**110.9**	93.1
Disposals	**–**	(7.5)
Balance at 31 March	**229.1**	118.9
Net book value	**2 757.9**	2 001.8

Goodwill arising in the year to 31 March 1998 principally related to the acquisitions of the Vendôme Luxury Group public minorities in March 1998 and the acquisition of Lancel. Goodwill arising in the year to 31 March 1998 is analysed in the following table:

	£ m
Consideration	**1 264.0**
Net assets acquired	**(372.9)**
Goodwill arising	**891.1**

The total consideration shown above is reconciled to the amounts shown in the cash flow statement in note 29.

A proportion of the total goodwill amortisation charge of £ 120.3 million (1997: £ 111.0 million) shown at the pre-tax profit level in the consolidated profit and loss account related to goodwill arising on acquisitions made by the Group's associated undertakings. Such goodwill is capitalised in the balance sheet of the associate concerned and consequently appears in the Group balance sheet within investments in associated undertakings (see note 13 below). Of the total goodwill amortisation charge, £ 9.3 million (1997: £ 17.9 million) related to goodwill which has been capitalised by Richemont's associated undertakings.

Note 13 – Investments in associated undertakings

	1998	1997
	£ m	£ m
Carrying value at 1 April	**379.2**	402.9
Exchange adjustments	**(39.2)**	(50.2)
Acquisitions	**7.6**	277.1
Disposals	**(1.8)**	(144.9)
Decrease in post-acquisition retained earnings and other reserves	**(24.3)**	(105.7)
Carrying value at 31 March	**321.5**	379.2

Investments in associated undertakings at 31 March 1998 include goodwill of £ 209.6 million (1997: £ 250.1 million) which has been capitalised by the Group's associated undertakings. The balance sheet at 31 March 1997 has been restated to reflect the goodwill on the merger of NetHold with Canal+. The revised opening balance sheet at 31 March 1997 of the enlarged Canal+ now being available, £ 225.8 million has been reclassified from investments in associated undertakings to goodwill.

Note 14 – Other long-term investments

	1998	1997
	£ m	£ m
Shares in listed companies, at cost less amounts written off	**52.0**	43.2
Shares in unlisted companies, at cost less amounts written off	**22.0**	18.4
Other	**64.3**	47.3
	138.3	108.9
Market value of shares in listed companies at 31 March	**63.8**	47.6

Note 15 – Inventories

	1998	1997
	£ m	£ m
Raw materials and consumables	**490.3**	513.9
Work in progress	**151.5**	163.1
Finished goods and goods for resale	**1 197.4**	877.9
	1 839.2	1 554.9

Note 16 – Debtors

	1998	1997
	£ m	£ m
Trade debtors	**656.7**	688.1
Amounts owed by associated undertakings	**16.9**	14.1
Deferred taxation	**107.4**	72.3
Other debtors	**143.4**	198.9
Prepayments and accrued income	**88.9**	99.7
	1 013.3	1 073.1

Of the deferred taxation included above, £ 46.0 million (1997: £ 8.1 million) is recoverable after more than one year.

Note 17 – Marketable securities

	1998	1997
	£ m	£ m
Listed securities	**54.9**	89.1
Unlisted securities	**65.6**	333.8
	120.5	422.9
Market value of listed securities at 31 March	**56.0**	89.1

Note 18 – Current liabilities

	1998	1997
	£ m	£ m
Bank loans and overdrafts	**677.9**	408.8
Short-term portion of long-term loans	**4.6**	5.3
Trade creditors	**220.0**	221.9
Obligations under finance leases	**5.6**	8.2
Amounts owed to associated undertakings	**0.1**	0.8
Taxation	**207.7**	242.8
Deferred taxation	**6.5**	8.2
Duty and excise taxes	**660.5**	590.0
Other creditors	**224.5**	213.3
Accruals and deferred income	**263.8**	263.9
	2 271.2	1 963.2

Bank loans and overdrafts amounting to £ 38.1 million (1997: £ 19.2 million) and duty and excise taxes payable of £ 0.4 million (1997: £ 6.8 million) are secured on tangible assets of Group undertakings.

Note 19 – Net operating assets

The analysis of net operating assets by business segment was as follows:

	1998	1997
	£ m	£ m
Tobacco	**1 348.3**	1 171.9
Luxury goods	**651.7**	740.6
Other	**102.3**	(7.0)
The Company and its subsidiary undertakings	**2 102.3**	1 905.5
Share of associated undertakings	**321.5**	379.2
Net operating assets	**2 423.8**	2 284.7

Note 19 – Net operating assets (continued)

Net operating assets comprise total assets less current liabilities excluding goodwill, marketable securities, cash, bank loans and overdrafts and the short-term portion of long-term loans:

	1998	1997
	£ m	£ m
Net operating assets	**2 423.8**	2 284.7
Goodwill	**2 757.9**	2 001.8
Marketable securities	**120.5**	422.9
Cash	**410.4**	723.5
Bank loans and overdrafts	**(677.9)**	(408.8)
Short-term portion of long-term loans	**(4.6)**	(5.3)
Total assets less current liabilities	**5 030.1**	5 018.8

Note 20 – Share capital

	1998	1997
	£ m	£ m
Authorised, issued and fully paid:		
5 220 000 "A" bearer shares with a par value of SFr 100 each	**202.9**	202.9
5 220 000 "B" registered shares with a par value of SFr 10 each	**20.3**	20.3
	223.2	223.2

Note 21 – Participation reserve

	1998	1997
	£ m	£ m
Reserve in respect of 5 742 000 participation certificates with no par value issued by Richemont SA	**430.7**	430.7

Note 22 – Unitholders' capital

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

(a) Each "A" bearer share in the Company with a par value of SFr 100 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 the Company with a par value of SFr 10 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:

	1998	1997
(a) "A" bearer units, each comprising one "A" bearer share in the Company and one bearer participation certificate in Richemont SA	**5 220 000**	5 220 000
(b) "B" registered units, each comprising ten "B" registered shares in the Company and one registered participation certificate in Richemont SA	**522 000**	522 000
	5 742 000	5 742 000

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 the Company 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 23 – Retained earnings and other reserves

	1998	1997
	£ m	£ m
Balance at 1 April	**1 622.2**	1 270.7
Appropriation of prior year retained earnings:		
Dividend paid on Richemont SA participation reserve	**(54.0)**	(45.9)
Profit attributable to unitholders	**329.4**	513.4
Exchange adjustments	**(120.9)**	(116.0)
Balance at 31 March	**1 776.7**	1 622.2
Closing retained earnings and other reserves are analysed as follows:		
The Company and its subsidiary undertakings	**1 776.5**	1 592.5
Associated undertakings	**0.2**	29.7
	1 776.7	1 622.2

Legal reserves amounting to £ 61.8 million (1997: £ 61.3 million) are included above but are not available for distribution.

Note 24 – Long-term borrowings

	1998	1997
	£ m	£ m
Bank loans	**1 478.9**	1 140.6
Other loans	**1.5**	6.3
	1 480.4	1 146.9
Short-term portion of long-term loans (note 18)	**(4.6)**	(5.3)
Long-term loans	**1 475.8**	1 141.6
Obligations under finance leases	**9.0**	14.1
Other creditors	**29.3**	26.1
	1 514.1	1 181.8

Bank and other loans are subject to market rates of interest. Bank loans amounting to £ 1.2 million (1997: £ 3.7 million) are secured on tangible assets of Group undertakings.

An analysis of long-term loans by due date of repayment is set out below:

		1998	1997
		£ m	£ m
Amounts repayable in the financial years ending 31 March:	1999	**–**	7.8
	2000	**0.6**	2.0
	2001	**1 064.5**	1 124.0
	2002	**71.1**	1.0
	thereafter	**339.6**	6.8
		1 475.8	1 141.6

Subsequent to the year end, Rothmans International established a US$ 2 billion Global Medium Term Note programme. On 6 May 1998 the company issued US$ 330 million loan notes with a coupon of 6.75 per cent redeemable in 2008 and US$ 330 million loan notes with a coupon of 6.50 per cent redeemable in 2003. The proceeds of this public debt programme are intended to be used to repay its existing long-term bank borrowings and in May 1998 Rothmans International repaid a NLG 1 248 million syndicated loan facility. As at 31 March 1998, this amount was reflected in the amounts repayable in the financial year ending 31 March 2001 shown above.

Note 24 – Long-term borrowings (continued)

Obligations under finance leases fall due for payment as follows:

	1998	1997
	£ m	£ m
Amounts payable between two and five years	**5.3**	8.6
Amounts payable between one and two years	**4.2**	6.3
Amounts payable within one year	**5.9**	9.0
	15.4	23.9
Less: future finance charges included above	**(0.8)**	(1.6)
	14.6	22.3
Included in current liabilities (note 18)	**(5.6)**	(8.2)
Included in long-term borrowings	**9.0**	14.1

Note 25 – Other long-term liabilities

	1998	1997
	£ m	£ m
Obligations for post retirement benefits	**314.2**	333.8
Deferred taxation	**71.5**	65.6
Other provisions	**80.7**	102.6
	466.4	502.0

Note 26 – Post retirement benefits

The Group operates various pension schemes around the world in accordance with local conditions and practices in the countries concerned. The major schemes are of the defined benefit type. Medical benefits are also provided to pensioners in certain countries.

The total cost in respect of post retirement benefits was as follows:

	1998	1997
	£ m	£ m
Regular cost	**57.0**	53.0
Spreading of surpluses and deficiencies	**(15.4)**	(15.4)
Notional interest on balance sheet provisions	**21.5**	22.2
	63.1	59.8

The following balances were included in the consolidated balance sheet in respect of post retirement benefits:

	1998	1997
	£ m	£ m
Debtors	**1.6**	7.6
Current liabilities	**14.7**	23.2
Other long-term liabilities	**314.2**	333.8

The principal component of the other long-term liabilities of £ 314.2 million shown above at 31 March 1998 related to the obligations of Rothmans International's main German companies to pay future pension benefits, which are unfunded and therefore provided by way of balance sheet provisions.

Note 26 – Post retirement benefits (continued)

Actuarial valuations of the companies' estimated long-term liabilities were performed by Rüss, Dr Zimmermann and Partner, Actuaries, Hamburg, as at 31 March 1998 using the entry age method and assuming average future salary and pension increases of 5.25 per cent and 3.75 per cent per annum, respectively. At the exchange rate then ruling, the present value of the companies' future pension liabilities amounted to £ 172.7 million, which was covered by balance sheet provisions then existing. The charge to the Group profit and loss account in respect of the schemes for the year to 31 March 1998 was £ 9.8 million (1997: £ 11.5 million).

A number of Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee administered funds. The Group's liabilities to meet the future obligations of these schemes are consequently not shown in the consolidated balance sheet. The largest such scheme is the Rothmans International UK Pension Fund, which covers the majority of Rothmans International's employees in the United Kingdom. An actuarial valuation of the Fund was carried out by William M Mercer Limited as at 31 March 1996 using the projected unit credit method. Under the assumptions that the long-term annual rate of return on the Fund's investments will exceed the increase in pensionable earnings by 1.5 per cent and will exceed the annual growth in future pensions by 4.0 per cent, the actuarial value of the estimated long-term accrued liabilities of the Fund as at 31 March 1998 was £ 377.5 million. The actuarial value of assets represented 123 per cent of these liabilities, and at the date of the valuation the market value of the Fund's assets was £ 584 million. The surplus shown by the above valuation is being spread over the average remaining service lives of the current employees of participating companies. Participating companies did not contribute to the Fund during the year. The charge to the Group profit and loss account in respect of the scheme for the year to 31 March 1998 was £ 10.9 million (1997: £ 8.8 million).

The liabilities of other Group companies to pay future pension benefits, and liabilities in respect of the provision of medical benefits to pensioners, are in general exceeded by either the actuarial value of assets separately administered to provide for such future payments or by provisions made within the accounts of each company. All material liabilities have been calculated by, and costs have been provided in accordance with, the recommendations of independent qualified actuaries. Where the valuation methods used locally do not comply with the Group's accounting policy, liabilities have been reassessed such that the cost of providing post retirement benefits is charged against profits on a systematic basis over the relevant employees' service lives.

Note 27 – Financial commitments and contingent liabilities

At 31 March 1998 certain Group companies had contingent liabilities and commitments. These principally related to commitments under forward exchange contracts together with commodity contracts which are appropriate to the companies' respective businesses. Such contracts are entered into exclusively to hedge current and forecast future foreign currency exposures and trading commitments arising in the ordinary course of business. No material losses are expected to arise in respect of these contingent liabilities and commitments.

At 31 March 1998 the Company and its subsidiary undertakings had signed non-cancellable operating leases in respect of which the following minimum rentals are payable:

	Land and buildings £ m	Other assets £ m	Total £ m
Within one year	**64.3**	**5.1**	**69.4**
Between two and five years	**144.1**	**5.6**	**149.7**
Thereafter	**146.9**	**0.1**	**147.0**
	355.3	**10.8**	**366.1**

Note 27 – Financial commitments and contingent liabilities (continued)

Certain of Rothmans International's subsidiary undertakings are involved in tobacco product liability litigation.

In Canada, Rothmans International's local subsidiary undertaking is a co-defendant in a suit which alleges negligence, failure to warn, design defects, misrepresentation and conspiracy. The plaintiffs, who are currently seeking to have the case certified as a class action, have claimed punitive damages against the companies involved and seek funding for rehabilitation centres for smokers. In a separate case in Ontario an individual has lodged a claim against a Rothmans International subsidiary and another Canadian tobacco company alleging negligence, misrepresentation, conspiracy and failure to warn. Damages in excess of Cdn$ 1 million have been sought in this case.

In British Columbia legislation has recently been passed which is designed to allow the provincial government to recover from tobacco companies the costs incurred in treating smokers in respect of alleged smoking-related illness. It is anticipated that litigation may be commenced against tobacco companies trading in Canada as a consequence of this new legislation.

Rothmans International's subsidiary undertakings in Ireland have been named as co-defendants in what are understood to be a series of product liability cases. These cases are at a very early stage and no details are available at this time.

In Nigeria, Rothmans International group companies have been named along with other multinational tobacco groups as defendants in a purported class action case. The allegations include design defects, failure to warn, breach of express warranty and conspiracy. The claims seek damages together with declarations and injunctions.

In April 1998 an individual plaintiff has issued a summons in the United States against a Rothmans International subsidiary undertaking alleging general negligence, intentional tort and product liability. The summons seeks an unspecified amount of general damages.

The Rothmans International defendants in all these cases believe that they have strong defences to the various claims, will deny all liability and will defend the actions vigorously. It is not expected that any material losses will arise from this litigation.

Note 28 – Cash inflow from operating activities

	1998	1997
	£ m	£ m
Operating profit	**1 044.4**	954.2
Share of operating losses of associated undertakings	**1.8**	83.0
Depreciation of tangible fixed assets	**112.1**	124.7
Profit on disposals of tangible fixed assets	**(4.3)**	(5.3)
Increase/(decrease) in long-term liabilities	**12.1**	(4.0)
Increase in inventories	**(424.7)**	(187.0)
Increase in debtors	**(6.3)**	(66.3)
Increase in current liabilities	**183.6**	76.6
	918.7	975.9
Net cash outflow in respect of the European rationalisation programme	**–**	(19.7)
Cash inflow from operating activities	**918.7**	956.2

Note 29 – Acquisitions of subsidiary undertakings and minority interests

	1998	1997
	£ m	£ m
Total consideration payable (note 12)	**1 264.0**	340.7
Non cash consideration	**(55.6)**	–
Consideration deferred to future years	**–**	(0.7)
Consideration paid during the year	**1 208.4**	340.0
Cash and cash equivalents of subsidiary undertakings acquired	**(35.6)**	(60.6)
Acquisitions of subsidiary undertakings and minority interests – cash outflow	**1 172.8**	279.4
Analysed as:		
Acquisitions of subsidiary undertakings, net of cash acquired	**108.4**	279.4
Acquisition of Vendôme Luxury Group public minorities	**1 053.0**	–
Acquisitions of other minority interests	**11.4**	–
	1 172.8	279.4

Note 30 – Cash and cash equivalents

The cash and cash equivalents figure in the consolidated cash flow statement comprises:

	1998	1997
	£ m	£ m
Marketable securities	**120.5**	422.9
Cash	**410.4**	723.5
Bank loans and overdrafts	**(677.9)**	(408.8)
	(147.0)	737.6

Note 31 – Principal group companies

Details of Richemont's underlying investments are given in the schedule of Principal Group Companies on pages 72 and 73.

To the General Meeting of Shareholders of
Compagnie Financière Richemont AG, Zug

As auditors of the Group, we have audited the consolidated financial statements on pages 39 to 57, consisting of the statement of accounting policies, consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and the notes to the consolidated financial statements of Compagnie Financière Richemont AG for the year ended 31 March 1998.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with International Standards on Auditing as issued by the International Federation of Accountants, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and cash flows, in accordance with the Accounting and Reporting Recommendations as issued by the Foundation for Accounting and Reporting Recommendations in Switzerland and comply with the law and the accounting provisions as contained in the Listing Rules of the Swiss Exchange.

We recommend that the consolidated financial statements submitted to you be approved.

COOPERS & LYBRAND AG

Kurt Hausheer	Clive Bellingham	Zurich, 17 June 1998
Swiss Certified Public Accountant	Chartered Accountant	
Lead Auditor	Lead Auditor	

FINANCIAL STATEMENTS OF THE COMPANY

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1998

	Notes	**1998 SFr m**	1997 SFr m
INCOME			
Dividends		**63.4**	43.7
Other income		**11.6**	7.5
		75.0	51.2
EXPENSES			
Interest paid		**0.9**	1.4
General expenses	2	**13.0**	12.0
		13.9	13.4
PROFIT BEFORE TAXATION		**61.1**	37.8
Taxation		**0.8**	1.2
NET PROFIT FOR THE YEAR		**60.3**	36.6

BALANCE SHEET
AT 31 MARCH 1998

	Notes	**1998** **SFr m**	1997 SFr m
NON-CURRENT ASSETS			
Investments	3	**700.6**	702.8
Fixed assets	4	**22.3**	22.7
		722.9	725.5
CURRENT ASSETS			
Loans to affiliated companies		**189.3**	127.1
Debtors		**0.3**	0.4
Cash		**1.7**	1.3
		191.3	128.8
		914.2	854.3
SHAREHOLDERS' EQUITY			
Share capital	5	**574.2**	574.2
Legal reserve	6	**114.5**	112.7
Retained earnings	7	**180.8**	122.3
		869.5	809.2
LIABILITIES			
Current liabilities			
Accrued expenses		**0.3**	0.6
Taxation		**1.2**	1.2
Loans from affiliated companies		**43.0**	42.9
		44.5	44.7
Long-term liabilities		**0.2**	0.4
		44.7	45.1
		914.2	854.3

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 1998

Note 1 – Basis of preparation of the financial statements

The financial statements represent the financial position of the Company at 31 March 1998 and the results of its operations for the year then ended, prepared in accordance with Swiss law.

Note 2 – General expenses

	1998	1997
	SFr m	SFr m
General expenses are comprised as follows:		
Personnel costs	**3.5**	3.8
Depreciation	**0.5**	0.5
Other	**9.0**	7.7
	13.0	12.0

Note 3 – Investments

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

	1998	1997
	SFr m	SFr m
Richemont SA, Luxembourg	**700.0**	700.0
Other investments	**0.6**	2.8
	700.6	702.8

Note 4 – Fixed assets

Excluding land, the net book value of tangible fixed assets is SFr 14.7 million (1997: SFr 15.1 million). The fire insurance value of tangible fixed assets amounts to SFr 20.9 million (1997: SFr 20.0 million).

Note 5 – Share capital

	1998	1997
	SFr m	SFr m
5 220 000 "A" bearer shares with a par value of SFr 100 each, fully paid	**522.0**	522.0
5 220 000 "B" registered shares with a par value of SFr 10 each, fully paid	**52.2**	52.2
	574.2	574.2

Note 6 – Legal reserve

	1998	1997
	SFr m	SFr m
Balance at 1 April	**112.7**	111.9
Transfer from retained earnings	**1.8**	0.8
	114.5	112.7

The legal reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 1998

Note 7 – Retained earnings

	1998	1997
	SFr m	SFr m
1 April, before appropriation of prior year retained earnings	**122.3**	86.5
Transfer to legal reserve	**(1.8)**	(0.8)
1 April, after appropriation	**120.5**	85.7
Net profit for the year	**60.3**	36.6
	180.8	122.3

The retained earnings are stated before the proposed appropriation as set out on page 64.

Note 8 – Contingent liabilities

At 31 March 1998 the Company had given guarantees totalling SFr 1 996.7 million in respect of which it had received indemnities from subsidiaries in the same amount to cover obligations of various group companies amounting to SFr 63.8 million. The Company does not foresee any liability arising under these guarantees and, therefore, no provision has been made.

Note 9 – Significant shareholders

At the Annual General Meeting of shareholders which was held on 11 September 1997, the following significant shareholdings were notified to the Company:

– 5 220 000 "B" registered shares held by Compagnie Financière Rupert, representing 50.0 per cent of the voting rights in the Company.

– 1 866 491 "A" bearer shares held by Richemont Securities AG, representing 17.9 per cent of the voting rights in the Company. Richemont Securities AG acts as Depositary for depositary receipt holders and votes on their behalf and acts on their instructions at shareholders' meetings. The depositary receipts are listed on the Johannesburg Stock Exchange and represent claims against the Depositary in respect of a one hundredth undivided share of the rights and benefits, including voting rights, attaching to an "A" bearer unit.

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF RETAINED EARNINGS
AT 31 MARCH 1998

	SFr m
AVAILABLE RETAINED EARNINGS	
1 April, after appropriation	**120.5**
Net profit for the year	**60.3**
	180.8
PROPOSED APPROPRIATION	
Transfer to legal reserve	**3.1**
Balance to be carried forward	**177.7**
	180.8

Details of the dividend proposed in respect of the participation certificates of Richemont SA, Luxembourg are given on page 71.

The Board of Directors — Zug, 17 June 1998

REPORT OF THE STATUTORY AUDITORS

To the General Meeting of Shareholders of
Compagnie Financière Richemont AG, Zug

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Compagnie Financière Richemont AG for the year ended 31 March 1998.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

COOPERS & LYBRAND AG

Kurt Hausheer	Clive Bellingham	Zurich, 17 June 1998
Swiss Certified Public Accountant	Chartered Accountant	
Lead Auditor	Lead Auditor	

FINANCIAL STATEMENTS OF THE COMPANY

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 31 March 1998. The following financial statements set out the financial position of the Company and the results of its operations for the year then ended.

STATEMENT OF ACCOUNTING POLICIES

(A) Accounting convention

The financial statements are prepared under the historical cost convention and are presented in pounds sterling.

(B) Foreign currency translation

Transactions in foreign currencies during the year are recorded at exchange rates ruling at the time the transactions take place. Monetary assets and liabilities, expressed in currencies other than pounds sterling, are translated at exchange rates ruling at the year end. The resulting exchange gains or losses are credited or charged to income in the current year.

(C) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less amounts written off for diminutions in value which are considered to be of a permanent nature. Dividend income is recognised upon declaration by the subsidiary undertaking concerned.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1998

	1998	1997
	£ m	£ m
INCOME		
Dividend	**224.7**	154.5
Other income	**0.1**	0.8
	224.8	155.3
EXPENSES		
General expenses	**3.4**	1.7
PROFIT BEFORE TAXATION	**221.4**	153.6
Taxation	**0.1**	0.1
NET PROFIT FOR THE YEAR	**221.3**	153.5

BALANCE SHEET
AT 31 MARCH 1998

	Notes	**1998 £ m**	1997 £ m
ASSETS			
Investments	2	**1 224.5**	1 944.3
Cash		**1.4**	1.0
Loans to group companies	8	**–**	688.0
		1 225.9	2 633.3
CAPITAL AND RESERVES			
Share capital	3	**143.5**	143.5
Participation reserve	4	**430.7**	430.7
Legal reserve	5	**14.3**	14.3
General reserve	6	**285.3**	285.3
Retained earnings	7	**348.7**	198.0
		1 222.5	1 071.8
LIABILITIES			
Loans from group companies	8	**3.4**	1 558.1
Accrued expenses		**–**	3.4
		1 225.9	2 633.3

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 1998

Note 1 – Basis of preparation of the financial statements

Richemont SA is a Luxembourg holding company, incorporated on 5 March 1979. It is a wholly-owned subsidiary of Compagnie Financière Richemont AG, Zug, Switzerland. The financial statements represent the financial position of the Company at 31 March 1998 and the results of its operations for the year then ended.

Note 2 – Investments

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

Note 3 – Share capital

	1998	1997
	£ m	£ m
Issued and fully paid		
1 914 000 shares with a par value of £ 75 each	**143.5**	143.5

Note 4 – Participation reserve

	1998	1997
	£ m	£ m
Reserve established in respect of 5 742 000 participation certificates with no par value	**430.7**	430.7

The Company has set aside a participation reserve amounting to £ 430.7 million and issued, in respect of this reserve, 5 220 000 (1997: 5 220 000) bearer non-voting participation certificates with no par value and 522 000 (1997: 522 000) registered non-voting participation certificates with no par value. Bearer and registered participation certificates have identical rights.

Note 5 – Legal reserve

The legal reserve amounting to £ 14.3 million (1997: £ 14.3 million) is not available for distribution.

Note 6 – General reserve

The general reserve amounting to £ 285.3 million (1997: £ 285.3 million) is available for distribution subject to the approval of the shareholders.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 1998

Note 7 – Retained earnings

	1998	1997
	£ m	£ m
1 April, before appropriation of prior year retained earnings	**198.0**	104.3
11.53 per cent dividend paid on share capital (1997: 9.67 per cent)	**(16.6)**	(13.9)
12.53 per cent dividend paid on participation reserve (1997: 10.67 per cent)	**(54.0)**	(45.9)
1 April, after appropriation	**127.4**	44.5
Net profit for the current year	**221.3**	153.5
	348.7	198.0

The retained earnings at 31 March are stated before the proposed appropriation thereof as set out on page 71.

Note 8 – Loans to and from group companies

The loans to and from group companies are principally interest free and are repayable on demand.

Note 9 – Contingent liabilities

At 31 March 1998 the Company had given guarantees totalling £ 1 148.8 million (1997: £ 779.9 million) to cover obligations of various group companies amounting to £ 25.0 million (1997: £ 603.1 million). The Company does not foresee any liability arising under these guarantees and, therefore, no provision has been made.

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF RETAINED EARNINGS
AT 31 MARCH 1998

	£ m
Available retained earnings	
1 April, after appropriation	**127.4**
Net profit for the year	**221.3**
	348.7
Proposed appropriation	
14.33 per cent dividend payable on share capital	**20.6**
15.33 per cent dividend payable on participation reserve	**66.0**
Balance to be carried forward	**262.1**
	348.7

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

The proposed dividend on the participation reserve amounts to £ 11.50 per participation certificate. It will be payable to unitholders of Richemont on 28 September 1998 in respect of coupon number 42, free of charges, at the banks designated as paying agents.

The Board of Directors

Luxembourg, 16 June 1998

REPORT OF THE STATUTORY AUDITORS

To the Shareholders
Richemont SA, Luxembourg

We have audited the accompanying annual accounts of Richemont SA for the year ended 31 March 1998. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying annual accounts give, in conformity with the legal requirements, a true and fair view of the financial position of Richemont SA as of 31 March 1998 and of the results of its operations for the year then ended. 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 the Company's statutes.

COOPERS & LYBRAND SC
Statutory auditors
represented by Dominique Robyns
Réviseur d'Entreprises

Luxembourg, 16 June 1998

Country of incorporation	Name of company	Effective interest
Subsidiary undertakings – tobacco products		
Australia	Rothmans Holdings Limited	33.3%
	Rothmans of Pall Mall (Australia) Limited	33.3%
Belgium	Tabacofina-Vander Elst NV	66.7%
Canada	Rothmans, Benson & Hedges Inc.	28.5%
	Rothmans Inc.	47.5%
Germany	Brinkmann Niemeyer GmbH	66.7%
	Rothmans Cigaretten GmbH	66.7%
Japan	Rothmans Japan Limited	66.7%
Jersey	R&R Finance Limited	66.7%
Luxembourg	Rothmans International Holdings SA	66.7%
	RTH Luxembourg SA	66.7%
Malaysia	Rothmans of Pall Mall (Malaysia) Berhad	33.3%
Netherlands	Rothmans Europe (Nederland) BV	66.7%
	Rothmans Group Holdings BV	66.7%
	Rothmans International BV	66.7%
	Rothmans Manufacturing (The Netherlands) BV	66.7%
	Rothmans Nederland Holdings BV	66.7%
	Theodorus Niemeyer BV	66.7%
New Zealand	Rothmans of Pall Mall (New Zealand) Limited	33.3%
Republic of Ireland	PJ Carroll and Company Limited	66.7%
Singapore	Rothmans Industries Limited	33.3%
South Africa	Rothmans International Holdings Southern Africa (Pty) Limited	66.7%
Switzerland	FJ Burrus SA	66.7%
	Rothmans of Pall Mall Limited	66.7%
United Kingdom	Rothmans (Far East) Limited	66.7%
	Rothmans International Limited	66.7%
	Rothmans International Tobacco (UK) Limited	66.7%
	Rothmans of Pall Mall (International) Limited	66.7%
	Rothmans (UK) Limited	43.3%
United States of America	Lane Limited	66.7%
	Tobacco Exporters International (USA) Limited	66.7%
Zimbabwe	Rothmans of Pall Mall (Zimbabwe) Limited	33.5%

Country of incorporation	Name of company	Effective interest
Subsidiary undertakings – luxury goods		
France	Cartier SA	100.0%
	Chloé International SA	100.0%
	Lancel SA	95.0%
Germany	Cartier GmbH	100.0%
	Karl Seeger Lederwarenfabrik GmbH	100.0%
	Montblanc – Simplo GmbH	100.0%
Hong Kong	Les Must de Cartier Far East Limited	100.0%
Italy	LMC International Spa	100.0%
	Officine Panerai Srl	100.0%
Japan	Cartier Japan Limited	100.0%
	Dunhill Group Japan Limited	66.0%
Luxembourg	Cartier Monde SA	100.0%
	New VLG SA	100.0%
Netherlands	Cartier International BV	100.0%
	Montblanc International BV	100.0%
	Vendôme Luxury Group BV	100.0%
Switzerland	Baume & Mercier SA	100.0%
	Cartier International SA	100.0%
	Cartier SA	100.0%
	Interdica SA	100.0%
	Piaget (International) SA	100.0%
	Vacheron & Constantin SA	100.0%
United Kingdom	Alfred Dunhill Limited	100.0%
	Cartier Limited	100.0%
	Hackett Limited	100.0%
	James Purdey & Sons Limited	100.0%
United States of America	A Sulka & Company Limited	100.0%
	Cartier, Incorporated	100.0%
	Montblanc Inc.	100.0%
Subsidiary undertakings – other		
Luxembourg	Richemont Finance SA (Holding company)	100.0%
Switzerland	Richemont Securities AG (Transfer secretaries)	100.0%
United Kingdom	Richemont International Limited (Advisory services)	100.0%
Associated undertakings		
France	Canal+ SA (Pay television)	15.0%
Jamaica	Carreras Group Limited (Tobacco products)	31.6%
United States of America	Hanover Direct, Inc. (Direct retailing)	[1]47.6%

[1] Reflects the position as at the date of this report, following the distribution by NAR Group Limited to its shareholders of its interest in Hanover Direct, Inc.

	1994 £ m	1995 £ m	1996 £ m	1997 £ m	**1998** **£ m**
CONSOLIDATED PROFIT AND LOSS ACCOUNT					
Net sales revenue					
Tobacco – including Southern African pre-acquisition element	2 912.0	2 979.3	3 165.0	3 300.1	**3 171.9**
Less: Southern African pre-acquisition element	(426.9)	(427.6)	(324.9)	–	**–**
Tobacco – as reported	2 485.1	2 551.7	2 840.1	3 300.1	**3 171.9**
Luxury goods	1 180.0	1 300.4	1 466.8	1 455.7	**1 490.4**
	3 665.1	3 852.1	4 306.9	4 755.8	**4 662.3**
Operating profit					
Tobacco – including Southern African pre-acquisition element	621.0	673.3	759.4	810.0	**820.9**
Less: Southern African pre-acquisition element	(182.3)	(173.9)	(153.7)	–	**–**
Tobacco – as reported	438.7	499.4	605.7	810.0	**820.9**
Luxury goods	193.8	222.4	249.7	243.3	**240.6**
Pay television	(25.7)	(38.1)	(46.3)	(81.0)	**(16.9)**
NAR Group/Direct retailing	11.0	11.2	(3.2)	(16.1)	**0.3**
Other	(9.1)	(6.9)	(7.0)	(2.0)	**(0.5)**
	608.7	688.0	798.9	954.2	**1 044.4**

PROFIT AND LOSS ACCOUNT ANALYSES

Rothmans International

	1994 £ m	1995 £ m	1996 £ m	1997 £ m	**1998** **£ m**
Net sales revenue by geographic region					
Europe	1 222.7	1 286.8	1 377.0	1 412.3	**1 369.4**
Africa and the Middle East	667.0	627.6	682.7	675.1	**693.4**
Americas	286.0	266.6	283.6	304.7	**299.6**
Asia	407.7	466.2	493.7	540.1	**475.8**
Pacific	328.6	332.1	328.0	367.9	**333.7**
	2 912.0	2 979.3	3 165.0	3 300.1	**3 171.9**
Operating profit by geographic region					
Europe	122.8	181.2	218.8	249.4	**244.6**
Africa and the Middle East	241.2	212.2	264.2	236.0	**225.2**
Americas	90.5	91.0	84.4	93.5	**99.3**
Asia	99.4	122.1	138.4	143.7	**139.8**
Pacific	52.6	54.4	34.9	73.3	**97.2**
Rothmans International and its subsidiary undertakings	606.5	660.9	740.7	795.9	**806.1**
Share of associated undertakings	14.5	12.4	18.7	14.1	**14.8**
	621.0	673.3	759.4	810.0	**820.9**

	1994 SFr m	1995 SFr m	1996 SFr m	1997 SFr m	**1998 SFr m**
PROFIT AND LOSS ACCOUNT ANALYSES (CONTINUED)					
Vendôme Luxury Group					
Net sales revenue by geographic region					
Europe	1 103.3	1 098.8	1 045.9	1 114.0	**1 413.3**
Far East	888.5	981.7	1 063.0	1 208.4	**1 313.7**
Americas	528.3	499.3	487.3	593.4	**742.9**
Other	75.9	73.1	88.0	83.0	**107.0**
	2 596.0	2 652.9	2 684.2	2 998.8	**3 576.9**
Net sales revenue by product category					
Jewellery	393.9	437.7	470.0	525.9	**671.6**
Gold and jewellery watches	541.1	566.5	565.5	705.4	**882.6**
Other watches	391.5	403.2	435.8	511.4	**656.2**
Writing instruments	336.2	310.4	315.3	319.7	**346.3**
Leather goods	264.4	288.8	295.7	295.3	**342.8**
Menswear	156.7	159.8	162.7	185.5	**196.1**
Other	512.2	486.5	439.2	455.6	**481.3**
	2 596.0	2 652.9	2 684.2	2 998.8	**3 576.9**
Net sales revenue by distribution channel					
Retail	784.4	781.9	835.1	1 026.6	**1 339.1**
Wholesale	1 811.6	1 871.0	1 849.1	1 972.2	**2 237.8**
	2 596.0	2 652.9	2 684.2	2 998.8	**3 576.9**
Operating profit	426.4	453.6	456.9	501.1	**577.5**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1994	1995	1996	1997	**1998**
	£ m	£ m	£ m	£ m	**£ m**
Reconciliation of profit attributable to unitholders					
On a reported basis	115.0	279.6	416.4	513.4	**329.4**
Goodwill amortisation	2.2	5.5	60.0	81.0	**90.8**
Share of Canal+ exceptional items	–	–	–	–	**(34.2)**
Gain on merger of media interests	–	–	–	(291.5)	**–**
Gain on merger of tobacco interests	–	–	(160.3)	–	**–**
Profit on sale of properties	–	(23.2)	–	–	**–**
Costs and taxation in respect of the Group restructuring	50.4	–	–	–	**–**
European rationalisation costs	36.7	–	–	–	**–**
On an adjusted basis	204.3	261.9	316.1	302.9	**386.0**

PER UNIT INFORMATION

	1994	1995	1996	1997	**1998**
Earnings per unit excluding exceptional items and goodwill amortisation	£ 35.58	£ 45.61	£ 55.05	£ 52.75	**£ 67.22**
Earnings per unit including exceptional items and goodwill amortisation	£ 20.03	£ 48.69	£ 72.52	£ 89.41	**£ 57.37**
Dividend per unit	£ 6.15	£ 7.00	£ 8.00	£ 9.40	**£ 11.50**

CONSOLIDATED BALANCE SHEET

	1994	1995	1996	1997	**1998**
	£ m	£ m	£ m	£ m	**£ m**
Net operating assets					
Rothmans International	816.3	893.0	932.2	1 218.1	**1 396.0**
Vendôme	620.3	714.9	825.0	740.6	**651.7**
Richemont/other	247.6	274.1	390.0	326.0	**376.1**
	1 684.2	1 882.0	2 147.2	2 284.7	**2 423.8**
Goodwill	23.9	50.9	1 646.8	2 001.8	**2 757.9**
Net liquid funds/(borrowings)	973.8	1 220.3	(240.1)	(409.3)	**(1 627.4)**
Other long-term liabilities	(607.7)	(613.4)	(636.1)	(542.2)	**(504.7)**
	2 074.2	2 539.8	2 917.8	3 335.0	**3 049.6**
Unitholders' funds	1 220.9	1 525.8	1 924.6	2 276.1	**2 430.6**
Minority interests	853.3	1 014.0	993.2	1 058.9	**619.0**
	2 074.2	2 539.8	2 917.8	3 335.0	**3 049.6**

NOTICE OF MEETING

The Annual General Meeting of shareholders of Compagnie Financière Richemont AG will be held at 3.00 p.m. in the "Grosser Saal", Artherstrasse 2–4, 6300 Zug on Thursday, 10 September 1998.

AGENDA

1. Business Report

The Board of Directors proposes that the General Meeting, having taken cognisance of the reports of the Auditors, approve the consolidated financial statements of the Group, the financial statements of the Company and the Directors' Report for the business year ended 31 March 1998.

2. Appropriation of Profits

The Board of Directors proposes that the available retained earnings of the Company at 31 March 1998 of SFr 180 800 000 be appropriated as follows:

Transfer to legal reserve	SFr 3 100 000
Balance to be carried forward	SFr 177 700 000
	SFr 180 800 000

3. Discharge of the Board of Directors

The Board of Directors proposes that its members be discharged from their obligations in respect of the business year ended 31 March 1998.

4. Election of the Board of Directors

The Board of Directors proposes that the following members be re-elected to serve for a further term of one year: Nikolaus Senn, Jean-Paul Aeschimann, Johann Rupert, Jan du Plessis, Yves-André Istel, Joseph Kanoui, Lord Renwick of Clifton and William Ryan. The Board further proposes that Mr Leo Deschuyteneer and Mr Ernst Verloop be elected to the Board.

5. Election of the Auditors

The Board of Directors proposes that PricewaterhouseCoopers (formerly Coopers & Lybrand AG) be re-appointed for a further term of one year as Auditors of the consolidated financial statements of the Group and of the financial statements of the Company.

The financial statements of the Group and of the Company along with the related reports of the Auditors together with the Directors' Report for the year ended 31 March 1998 will be available for inspection at the registered office of the Company from 17 August 1998 onwards. A copy of these documents, which are contained in the Richemont Annual Report 1998, will be sent to shareholders upon request.

Cards for admission to the Annual General Meeting together with voting forms may be obtained by holders of bearer shares, upon deposit of their share certificates, from any branch of the following banks up to 4 September 1998:

UBS
Darier, Hentsch & Cie
Bank J Vontobel & Co AG
Pictet & Cie
Anlage-und Kreditbank AKB

Deposited shares will be blocked until the close of the meeting. No admission cards will be issued on the day of the meeting itself.

A shareholder may appoint a proxy, who need not be the shareholder, as his or her representative at the meeting. Forms of proxy are provided on the reverse of the admission cards. In accordance with Swiss law, each shareholder may be represented at the meeting by the Company, by a bank or similar institution or by Dr Andreas Renggli, Notary Public, Baarerstrasse 8, 6300 Zug as independent agent. Unless proxies include explicit instructions to the contrary, voting rights will be exercised in support of the proposals of the Board of Directors.

Depositary agents, as defined in Article 689d of the Swiss Company Law, are requested to indicate to the Company, as soon as possible and in any event to the admission control prior to the commencement of the meeting, the number and par value of the shares they represent together with the reference numbers of the relevant admission cards. Institutions subject to the Swiss Federal Act on Banks and Savings Banks of 8 November 1934 and professional fund managers and trustees may be considered as depositary agents.

For the Board of Directors

Nikolaus Senn, Chairman
Johann Rupert, Chief Executive

Zug, 17 June 1998