

**THE MANCHESTER TOBACCO  
COMPANY LIMITED**

**Report and Financial Statements**

**31 December 1999**

**Deloitte & Touche  
PO Box 500  
201 Deansgate  
Manchester  
M60 2AT**



# THE MANCHESTER TOBACCO COMPANY LIMITED

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# THE MANCHESTER TOBACCO COMPANY LIMITED

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

Y Miyakita  
K Katakura  
N Nii  
S Robinson  
C Simpson  
K Iijima  
K Terada

### SECRETARY

N Nii

### REGISTERED OFFICE

Barton Dock Road  
Urmston  
Manchester  
M41 7TB

### BANKERS

Barclays Bank plc  
54 Lombard Street  
London  
EC3V 9EX

Fuji Bank Limited  
River Plate House  
7-11 Finsbury Circus  
London  
EC2M 7DH

### AUDITORS

Deloitte & Touche  
Chartered Accountants  
201 Deansgate  
Manchester  
M60 2AT

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

## ACTIVITIES

The company is involved in the manufacture for sale of tobacco products.

## REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The company's profit for the year is shown in the profit and loss account on page 6.

See note 22 to the accounts for future prospects of the company.

## DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (1998 - £Nil). The profit for the year of £2,809,503 has been transferred to reserves (1998 - £1,322,204).

## FIXED ASSETS

Movements in fixed assets are shown in note 7.

## YEAR 2000

The directors had developed plans and implemented necessary counter measures so that the Year 2000 would not create any impact on significant critical systems for financial information, operating systems, date dependent systems.

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

## DIRECTORS AND THEIR INTERESTS

The following served as directors during the year:

Y Miyakita  
N Nii  
S Robinson  
K Katakura  
C Simpson  
K Iijima  
K Terada

None of the directors at the year end had any interests in the shares of the company (1998 - same).

Any interests held by the directors in the shares of the immediate or ultimate parent company are dealt with in the accounts of those companies (see note 21).

## DISABLED PERSONS

It is the Company's policy to give full and fair consideration to applications from disabled persons, having due regard to their particular aptitudes and abilities, and to provide opportunities for the continued employment and suitable retraining of employees who become disabled whilst employed by the Company.

In all other respects equal opportunities exist for the training, career development and promotion of disabled persons.

# THE MANCHESTER TOBACCO COMPANY LIMITED

## DIRECTORS' REPORT

### INFORMATION TO EMPLOYEES

Regular Communications Meetings are held with representatives of the employees to inform them of any developments in the Company or of any changes which are likely to affect their interests.

The Company operates a Profit Related Payment scheme and employees are given regular updates on the company's financial performance.

### AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



Secretary

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **THE MANCHESTER TOBACCO COMPANY LIMITED**

### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 9.

#### **Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

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

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

#### **Uncertainties relating to future prospects of the company**

In forming our opinion, we have considered the adequacy of the disclosure made in note 22 to the accounts concerning the future prospects for the business of The Manchester Tobacco Company Limited, the ability of the company to continue as a going concern, the valuation of fixed assets and any provisions that may be necessary for financial commitments, such as those relating to employees or onerous contracts. In view of the significance of the matters disclosed we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

#### **Opinion**

*In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.*

*Deloitte & Touche*

Chartered Accountants and Registered Auditors

*13 June 2000*

**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 1999**

	<b>Note</b>	<b>1999 £'000</b>	<b>1998 £'000</b>
<b>TURNOVER</b>	<b>2</b>	<b>15,502</b>	<b>14,301</b>
Cost of sales		<u>(10,388)</u>	<u>(10,657)</u>
<b>GROSS PROFIT</b>		<b>5,114</b>	<b>3,644</b>
Administrative expenses		<u>(2,103)</u>	<u>(2,491)</u>
<b>OPERATING PROFIT</b>	<b>4</b>	<b>3,011</b>	<b>1,153</b>
Interest payable and similar charges	<b>5</b>	<b>(4)</b>	<b>(111)</b>
Interest receivable		<u>71</u>	<u>-</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>3,078</b>	<b>1,042</b>
Tax on profit on ordinary activities	<b>6</b>	<u>(269)</u>	<u>280</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>16</b>	<b>2,809</b>	<b>1,322</b>
Deficit brought forward		<u>(24,937)</u>	<u>(26,259)</u>
Deficit carried forward		<u><u>(22,128)</u></u>	<u><u>(24,937)</u></u>

All the above results derive from continuing operations. There are no recognised gains and losses for the current financial year and preceding financial year other than as stated in the profit and loss account.



THE MANCHESTER TOBACCO COMPANY LIMITED

**BALANCE SHEET**  
**31 December 1999**

	Note	1999 £'000	1998 £'000
<b>FIXED ASSETS</b>			
Tangible assets	7	19,238	20,079
<b>CURRENT ASSETS</b>			
Stocks	8	375	894
Debtors	9	4,375	4,772
Cash at bank and in hand		2,626	3
		<u>7,376</u>	<u>5,669</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(10,042)</u>	<u>(4,411)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(2,666)</u>	<u>1,258</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		16,572	21,337
<b>CREDITORS: amounts falling due after more than one year</b>	11	-	(7,466)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	13	<u>(232)</u>	<u>(340)</u>
		<u>16,340</u>	<u>13,531</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	4,077	4,077
Share premium account	16	34,391	34,391
Profit and loss account	16	<u>(22,128)</u>	<u>(24,937)</u>
Equity shareholders' funds		<u>16,340</u>	<u>13,531</u>

These financial statements were approved by the Board of Directors on 12 June 2000  
Signed on behalf of the Board of Directors

 - Director

# THE MANCHESTER TOBACCO COMPANY LIMITED

## CASH FLOW STATEMENT Year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	18	4,552	3,177
<b>Returns on investments and servicing of finance</b>			
Interest paid	(4)	(111)	
Interest received	71	-	
Net cash inflow/(outflow) from returns on investments and servicing of finance		67	(111)
<b>Taxation</b>			
UK corporation tax paid		-	-
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(1,627)	(824)	
Disposal of tangible fixed assets	1,090	89	
Net cash outflow from investing activities		(537)	(735)
Net cash inflow before financing		4,082	2,331
<b>Financing</b>			
Issue of ordinary share capital	15	-	6,150
Decrease in group loans	(1,189)	(6,974)	
Net cash outflow from financing		(1,189)	(824)
<b>Increase in cash</b>	19	<u>2,893</u>	<u>1,507</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1999**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Basis of preparation of the financial statements.**

See note 22 to the accounts.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Tangible fixed assets**

Depreciation is provided on cost over the estimated useful lives of the assets. The rates of depreciation are as follows:

Land	nil
Buildings	4% per annum
Plant and machinery	25% per annum on a reducing balance basis
Motor vehicles	25% per annum
Computers	33% per annum
Furniture and fittings	25% per annum

**Stocks**

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

**Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Amounts payable in foreign currencies have been translated to sterling at the rate ruling at the accounting date. Gains or losses on translation are included in the profit and loss account.

**Deferred taxation**

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

**Leases**

Operating lease rentals are charged to income in equal annual amounts over the lease term.

**Pension costs**

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

# THE MANCHESTER TOBACCO COMPANY LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 1999

### 2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. The turnover, is attributable to one activity, the manufacture, selling and distribution of tobacco products.

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1999 £'000	1998 £'000
Directors' emoluments	298	258
	No	No
Number of directors who are members of the defined benefit pension scheme	2	2
	£'000	£'000
Highest paid director		
Emoluments	67	63
Accrued pension attributable to the highest paid director	5	6
	No	No
Average number of persons employed		
Production	318	305
Administration	15	15
	333	320
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	6,396	6,780
Social security costs	493	490
Pension costs	347	386
	7,236	7,656

### 4. OPERATING PROFIT

	1999 £'000	1998 £'000
Operating profit is after charging/(crediting):		
Depreciation	1,011	1,069
Loss/(profit) on disposal of fixed assets	67	(4)
Rentals under operating leases:		
Hire of plant and machinery	109	135
Other operating leases	46	26
Auditors' remuneration:		
Audit fees	17	17
Other services	22	9

# THE MANCHESTER TOBACCO COMPANY LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 1999

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £'000	1998 £'000
Bank loans, overdrafts and other loans repayable within five years	4	111

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
United Kingdom corporation tax at 30% (1998 - 31%) based on the profit for the year	(269)	-
Group relief receivable	-	280
	(269)	280

The taxation charge is disproportionate to the profit for the year because of the effect of deferred tax timing differences and the utilisation of losses brought forward.

### 7. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Furniture and fittings £'000	Assets in con- struction £'000	Total £'000
<b>Cost</b>						
At 1 January 1999	20,599	3,772	280	904	487	26,042
Additions	464	118	84	64	897	1,627
Disposals	-	(275)	(33)	-	-	(308)
Transfers	1,010	117	-	-	(1,127)	-
Transfers to fellow subsidiary	-	(1,723)	-	-	(211)	(1,934)
At 31 December 1999	22,073	2,009	331	968	46	25,427
<b>Accumulated depreciation</b>						
At 1 January 1999	2,695	2,443	154	671	-	5,963
Charge for the year	707	113	64	127	-	1,011
Disposals	-	(110)	(27)	-	-	(137)
Transfers to fellow subsidiary	-	(648)	-	-	-	(648)
At 31 December 1999	3,402	1,798	191	798	-	6,189
<b>Net book value</b>						
At 31 December 1999	18,671	211	140	170	46	19,238
At 31 December 1998	17,904	1,329	126	233	487	20,079

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1999**

**8. STOCKS**

	1999 £'000	1998 £'000
Consumables	375	894

**9. DEBTORS**

	1999 £'000	1998 £'000
Trade debtors	-	10
Amounts owed by group undertakings:		
Ultimate parent company	25	26
Fellow subsidiary undertakings	4,145	4,461
Prepayments and accrued income	205	275
	4,375	4,772

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1999 £'000	1998 £'000
Bank overdraft	-	270
Trade creditors	282	596
Amounts owed to group undertakings:		
Ultimate parent company	1,073	706
Fellow subsidiary	7,314	518
Other creditors	36	38
Taxation and social security	447	174
Accruals and deferred income	890	2,109
	10,042	4,411

**11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	1999 £'000	1998 £'000
Amounts owed to group undertakings:		
Fellow subsidiary undertaking	-	7,466

# THE MANCHESTER TOBACCO COMPANY LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 1999

### 12. BORROWINGS

	1999 £'000	1998 £'000
Loan from fellow subsidiary undertaking	6,066	7,466
	<u>6,066</u>	<u>-</u>
Due within one year	6,066	-
Due within 1-2 years	-	7,466
Due within 2-5 years	-	-
	<u>6,066</u>	<u>7,466</u>

### 13. PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant property provision £'000	Fixed asset provision £'000	Total provisions £'000
Balance at 1 January 1999	250	90	340
Utilised during the year	(18)	(90)	(108)
	<u>232</u>	<u>-</u>	<u>232</u>

The amounts of deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided 1999 £'000	Provided 1998 £'000	Not Provided 1999 £'000	Not Provided 1998 £'000
Capital allowances in advance of depreciation	-	-	(374)	(1,310)
Other timing differences	-	-	(12)	(713)
	<u>-</u>	<u>-</u>	<u>(386)</u>	<u>(2,023)</u>

### 14. CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
Allotted and fully paid		
4,077,000 ordinary shares of £1 each	4,077	4,077
	<u>4,077</u>	<u>4,077</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1999**

**15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1999 £'000	1998 £'000
Profit/(loss) attributable to members of the company	2,809	1,322
Issue of shares	-	6,150
Net addition to shareholders' funds	2,809	7,472
Opening shareholders' funds	13,531	6,059
Closing shareholders' funds	16,340	13,531

**16. MOVEMENTS ON RESERVES**

	Profit and loss account £'000	Share premium account £'000	Total reserves £'000
Balance at 1 January 1999	(24,937)	34,391	9,454
Profit for the year	2,809	-	2,809
Balance at 31 December 1999	(22,128)	34,391	12,263

**17. FINANCIAL COMMITMENTS**

	1999 £'000	1998 £'000
<b>Capital commitments</b>		
Contracted for but not provided	278	673
<b>Operating lease commitments</b>		
	Land and buildings £'000	Other £'000
Leases which expire:		
Within 1 year	-	105
Within 2 to 5 years	-	94
Over 5 years	6	-

**Pension commitments**

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent actuarial valuation, carried out as at 6 April 1997, showed that the market value of the scheme's assets was £1,812,703 which would be sufficient to secure the members entitlements based upon the latest available salaries. The contributions of the company and employees are 8.6% and 5% of earnings respectively.



# NOTES TO THE ACCOUNTS

Year ended 31 December 1999

## Pension commitments (continued)

The pension charge for the year was £347,000 (1998 - £386,000).

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum and that salary increases would average 8% per annum.

## 18. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1999 £'000	1998 £'000
Operating profit	3,011	1,153
Depreciation	1,011	1,069
Loss/(profit) on sale of fixed assets	67	(4)
Decrease in stock	519	615
Decrease in debtors	80	562
(Decrease)/increase in creditors and provisions	(1,550)	2,217
Movement in group balances	1,414	(2,435)
Net cash inflow from operating activities	4,552	3,177

## 19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £'000	1998 £'000
Increase in cash in the year	2,893	1,507
Cash outflow from decrease in group loans	1,189	6,874
Non cash outflow from decrease in group loans	211	15,860
Change in net debt	4,293	24,241
Net debt at 1 January	(7,833)	(32,074)
Net debt at 31 December	(3,540)	(7,833)

## 20. ANALYSIS OF NET DEBT

	At 1 January 1999 £'000	Cash flow £'000	Non-cash flows £'000	At 31 December 1999 £'000
Cash at bank and in hand	3	2,623	-	2,626
Overdrafts	(270)	270	-	-
	(267)	2,893	-	2,626
Debt due after 1 year	(7,466)	1,189	6,277	-
Debt due within 1 year	(100)	-	(6,066)	(6,166)
Total	(7,833)	4,082	211	(3,540)

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 1999**

**21. ULTIMATE PARENT COMPANY**

The immediate parent company is J T (UK) Limited, a company incorporated in Great Britain and registered in England and Wales, and the ultimate parent company is Japan Tobacco Inc., a company incorporated and registered in Japan.

Copies of the financial statements of J T (UK) Limited are filed at Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. Copies of the financial statements of Japan Tobacco Inc. are available from 2-1, Toranomon 2-chome, Minato-Ku, Tokyo 105, Japan.

The company has taken advantage of the exemptions included in Financial Reporting Standard No.8 "Related Party Disclosures" (para 3) for wholly owned subsidiaries not to disclose transactions with entities that are part of the group qualifying as related parties.

**22. FUTURE PROSPECTS OF THE COMPANY**

Since Japan Tobacco Inc., the ultimate parent company, and its subsidiaries (collectively "JTI") acquired RJR International ("RJRI"), the non-U.S. tobacco operations of RJR Nabisco in May 1999, JTI has been developing the integration process of the international tobacco business of the JTI and RJRI groups.

In the process of this global integration, JTI carefully reviewed its current operations and decided to cease its sales operation in the UK domestic market in the first half of the year 2000.

JTI also decided to transfer a part of its international operations to the other companies in both JTI and RJRI group during the year 2000.

On 14 April 2000, JTI announced its proposal to close The Manchester Tobacco Company Limited, another subsidiary of J T (UK) Limited, at the end of December 2000. This proposal is currently subject to consultation with trade unions and employees' representatives. The financial effect of the closure of the plant cannot currently be quantified.

However, the ultimate parent company has indicated its continued financial support for the company for the period of 12 months from the approval of the financial statements for the year ended 31 December 1999 to enable them to meet any liabilities as they fall due.

Accordingly, the directors have not sought to make provision for such liabilities or diminution in value of assets in these financial statements, which reflect only foreseeable liabilities and existing asset values on a going concern basis.