



**TCC**

# Annual Report 2005

**Tanzania Cigarette Company Limited**

A Member of the **JTI** Group of Companies



quality commitment innovation synergy

# Quality

excellence simplicity satisfaction

# Commitment

respectful responsible transparent

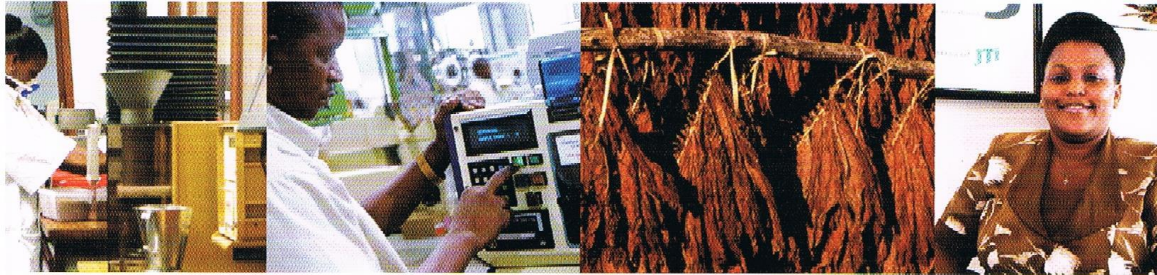
# Innovation

dynamic enthusiastic fast

# Synergy

diversity engagement teamwork

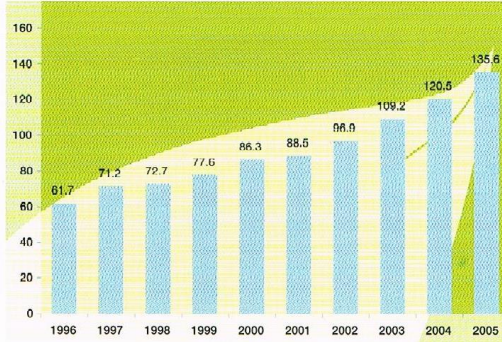
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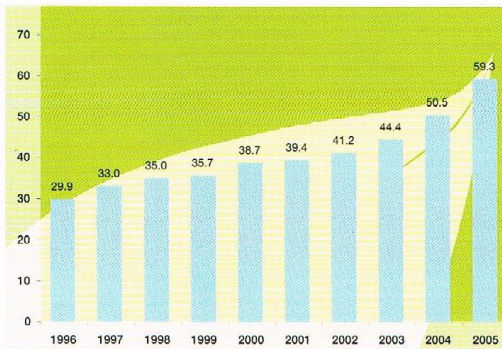
## HIGHLIGHTS FOR 2005

### Sales Turnover 1996 - 2005 (Tshs. billion)



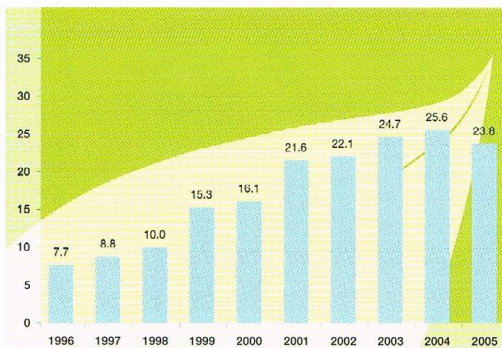
Gross turnover up by Tshs. **15.1** billion or 13% from Tshs. **120.5** billion in 2004 to Tshs. **135.6** billion in 2005.

### Excise Duty and VAT 1996 - 2005 (Tshs. billion)



Excise duty and VAT up by Tshs. **8.8** billion or 17% from Tshs. **50.5** billion in 2004 to Tshs. **59.3** billion in 2005.

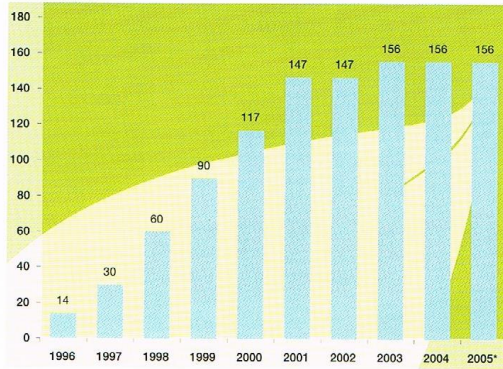
### Profit Before Tax 1996 - 2005 (Tshs. billion)



Profit before tax down by Tshs. **1.8** billion or 7% from Tshs. **25.6** billion in 2004 to Tshs. **23.8** billion in 2005.

## HIGHLIGHTS FOR 2005 (continued)

### Ordinary Dividend 1996 - 2005 (Tshs. per share)



Gross ordinary dividend per share maintained at Tshs. **156** per share\*.

Note: Special dividend

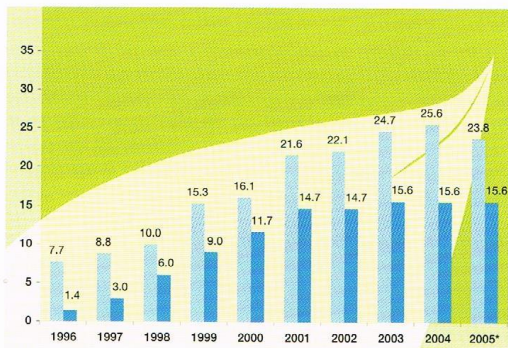
FY 2001: Tshs. 80.0

FY 2002: Tshs. 16.0

FY 2003: Tshs. 63.0

\* The proposed final dividend of Tsh 77.89 per share is subject to approval by shareholders at the Annual General Meeting and, in line with the provisions of IAS 10, has not been included as liability in these financial statement.

### Profit Before Tax and Ordinary Dividend 1996 - 2005 (Tshs. billion)



Profit before tax down by Tshs. **1.8** billion or 7% from Tshs. **25.6** billion in 2004 to Tshs. **23.8** billion in 2005.

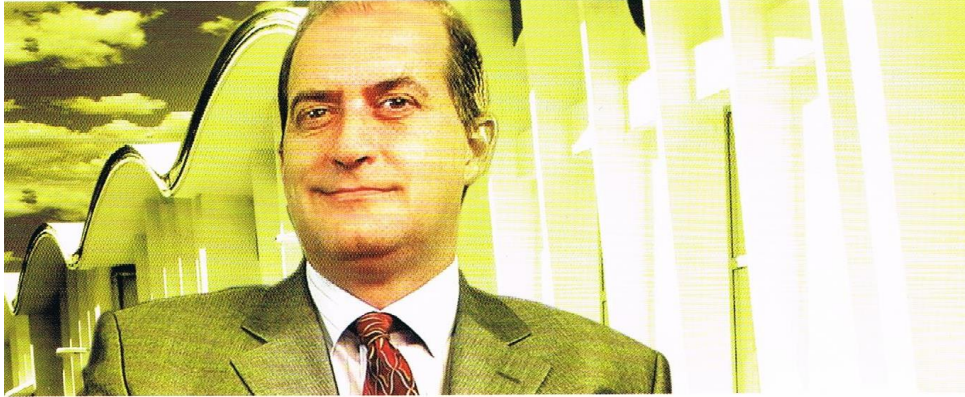
Gross ordinary dividend maintained at Tshs. **15.6** billion

FY 2001: Tshs. 8.0 billion

FY 2002: Tshs. 16.0 billion

FY 2003: Tshs. 6.3 billion

## FROM THE CHAIRMAN



### **The operating environment**

The operating environment continues to rapidly evolve. Consumers are becoming more sophisticated and increasingly demanding. New regional markets and competitors are emerging as trade barriers are gradually removed. Anti tobacco initiatives are gaining momentum across the region driven by the World Health Organization (WHO). Excise tax on cigarettes continues to increase and the Shilling continues to weaken against major world currencies. Drought and power outages have added to these challenges and the general rise in armed robberies is a source of concern.

The Company's ability to adapt to these challenges and leverage opportunities is key to its future success. To this end, TCC embarked on a market category building initiative in 2003 with a view to accelerating market growth through significant investment in the front end of the business. This continued to be the Company's strategic focus in 2005 and has paid handsome dividends with the Company achieving record volumes in both its domestic and export markets. This investment has established a strong platform for sustainable future earnings growth.

### **2005 Company performance**

#### *Domestic and export market developments*

Domestic volume was at an all time high, up 13% on previous year, driven by quality volume growth across all brand categories. Our premium sector, in particular, has performed remarkably well with brands such as Embassy demonstrating excellent growth.

This historic performance was achieved against a background of two new competitive entries, an excise tax increase in June 2005 and depreciation of the Shilling against major world currencies. Prices however remained unchanged for a third consecutive year.

Underlying the double-digit growth in domestic volume is the considerable investment in selling and distribution infrastructure, marketing and promotional programs.

Export volume continued to show strong growth momentum, up 13% over the previous year.

## FROM THE CHAIRMAN (continued)

Further volume growth is anticipated in the short to medium term as the Company leverages the investment made in selling and distribution infrastructure in the domestic market and taps into regional market opportunities.

### *Investment in equipment, machinery and people*

To meet the anticipated volume growth, the Company invested Tshs. 7.5 billion to enhance production capacity, operational efficiency and product quality. This investment is part of a Tshs. 36-billion investment plan over the period 2005 to 2008.

The Company spent close to Tshs. 900 million in 2005 on training and developing its employees. This investment reflects the Company's continued commitment to reinforce and build its human capital as a key driver for sustainable growth.

### *Gross turnover, operating profit and tax contribution*

Gross turnover increased 13% to Tshs. 135.64 billion in 2005 from Tshs. 120.52 billion in 2004. Net profit declined slightly to Tshs. 17.05 billion in 2005 from Tshs. 17.83 billion in 2004. This is due to the significant investment made in selling and distribution infrastructure, absorption of excise tax increases for three consecutive years, depreciation of the Shilling and inflationary pressures on imported raw materials. The Company contributed to the Government Exchequer a record Tshs. 59.3 billion in excise tax and VAT in 2005, up 17% from Tshs. 50.5 billion in 2004. In addition, substantial import, payroll and other indirect taxes were paid.

### *Dividend*

It is my pleasure to announce that the TCC Board of Directors has declared a final net dividend of Tshs. 74.00 (gross Tshs. 77.89) per share for 2005. This will be paid to all shareholders registered at the Dar es Salaam Stock Exchange at closure of the register on April 20, 2006. Together with the interim net dividend of Tshs. 74.00 (gross Tshs. 77.89) per share paid to shareholders in October 2005, this provides a total net dividend of Tshs. 148.00 (gross Tshs. 155.78) per share. Dividend payment for 2005 has been maintained at the same level as that of 2004. This reflects the Board's confidence in the Company's future performance.

### **Prospects for 2006**

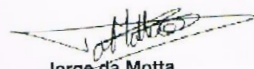
I am optimistic about the Company's prospects for 2006. This is based on the passion of our employees, the equity of our brands, our sales and distribution infrastructure, the support of our parent company, JTI, and our ability to react to new challenges and opportunities.

This positivism however, is subject to no unfavourable tax changes in the June 2006 National Budget, manageable cost inflation on imported materials and currency depreciation.

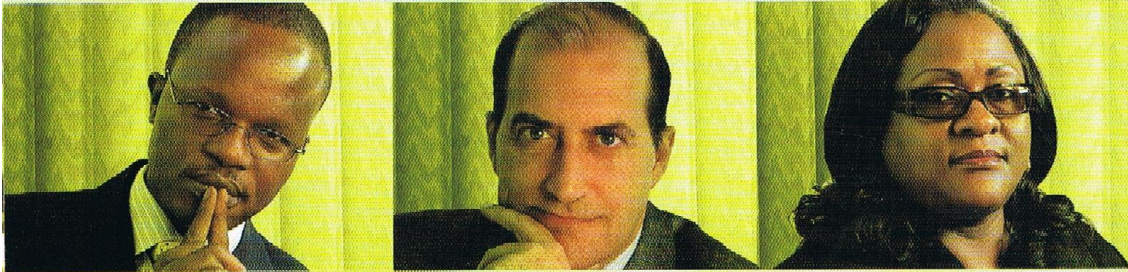
I look forward to updating shareholders later in the year with first half-year results.

### **Conclusion**

On behalf of the Board of Directors, I thank the many stakeholders that have contributed to TCC's continued success; the tobacco farmers and processors, suppliers, our dealers and retailers, our employees, the Government and its agencies, TCC's parent company and our shareholders.

  
**Jorge da Motta**  
Chairman and General Manager

## BOARD OF DIRECTORS



**Paul Makanza**  
Director (Executive)

**Jorge da Motta**  
Chairman and General Manager

**Maria Kejo**  
Director (Non Executive)

## THE MANAGEMENT

### STANDING FROM LEFT TO RIGHT:

**Tatiana Dearden**  
Director Human Resources

**Jesse Mwangi**  
Director Consumer and Trade Marketing (Operations)

**Michal Bachan**  
Director Consumer and Trade Marketing  
(Portfolio and Brand Strategy)

**Vintan Mbiro**  
Director Legal Affairs

**Frank Usiri**  
Director Company Services

**Cheryl Grobbelaar**  
Director Finance

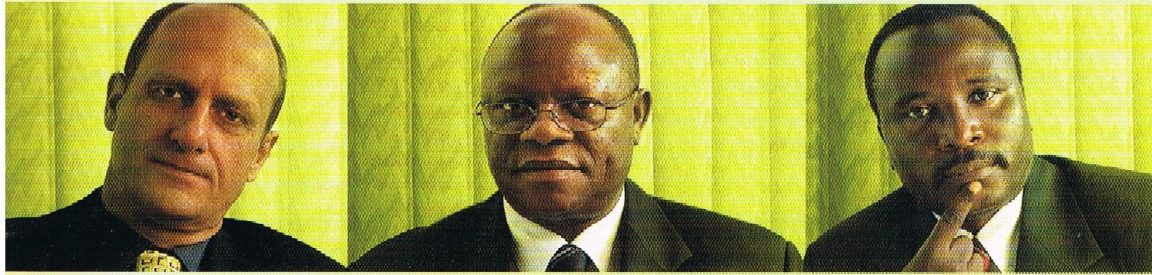
### SITTING FROM LEFT TO RIGHT:

**Paul Makanza**  
Director Corporate Affairs

**Jorge da Motta**  
General Manager

**Roy Sizemore**  
Director Manufacturing and Operations





**David Thorn**  
Director (Executive)

**Gray Mgonja**  
Director (Non Executive)

**Vintan Mbiro**  
Secretary to the Board



## BUSINESS REVIEW

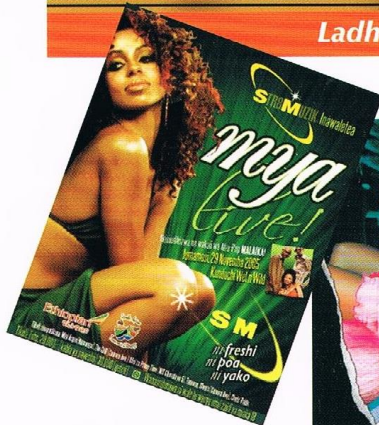
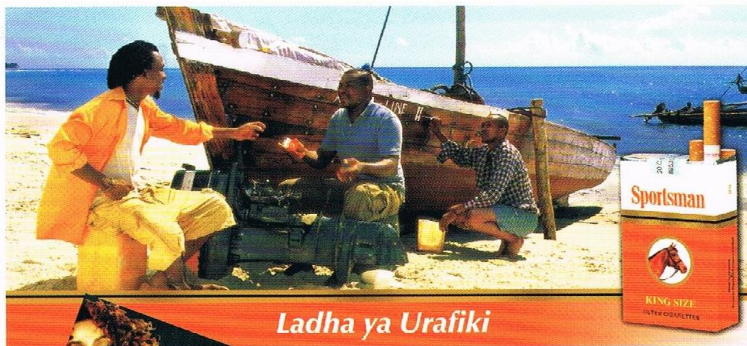
### Historic sales in the domestic and export markets

Domestic volume was at an all time high, 13% up on previous year, driven entirely by quality double-digit volume growth across all brand categories. Embassy, TCC's premium brand, recorded an impressive growth over the previous year signaling a strong uptrading trend. Prices remained unchanged for the third year running, despite a 5% excise tax increase in June 2005 and increased costs of Dollar and Euro denominated imported raw materials.

This historic performance was achieved against a background of two new competitive entries in early 2005.

Underlying the double-digit growth in volume is the investment made in selling and distribution infrastructure. Over 700 new dealers were added to the dealer base. Sales branches were modernized. The fleet size was significantly expanded and new sales and merchandising routes added.

Equally important is the investment made behind the Company's marketing and promotional programs. New and exciting thematic campaigns for Sportsman, SM and Embassy were rolled out in 2005. The "Millionaire" promotion was the biggest ever in Tanzania, with total prize money of



## BUSINESS REVIEW (continued)

Tshs. 216 million. Designed to enhance customer loyalty, the event generated a lot of excitement amongst adult smokers and was a huge success. A new brand, Safari, was launched in November 2005. This brings to eight (8) the total number of brands offered to consumers. Other brands include Sportsman, SM, Embassy, Club, Crescent and Star, Camel and Winston.

Export volume continued to show strong growth momentum, up 13% over the previous year. Regional export operations were strengthened and refocused, with a separate business unit being created to explore and exploit regional opportunities for growth and expansion.

### Tshs. 7.5 billion investment in capacity, efficiency and quality

Further volume growth is anticipated in the short to medium term as the Company leverages the investment made in selling and distribution infrastructure and taps into regional market opportunities.

To meet the anticipated volume growth, the Company invested Tshs. 7.5 billion in modern equipment and machinery to enhance production capacity, operational efficiency and product quality. This investment is part of a Tshs. 36-billion investment plan over the period 2005 to 2008. Once completed, it will deliver a world class manufacturing facility.



## BUSINESS REVIEW (continued)

### **Close to Tshs. 900 million invested in employee training and development**

The Company continued to place greater emphasis on enhancing organizational capacity, the quality of its human capital and the working environment. This investment reflects the Company's continued belief in its employees, and its commitment to reinforce and build its human capital as a key driver for sustainable growth.

During the year, the Company invested close to Tshs. 900 million in training and developing its employees. A significant number of employees attended various overseas conferences and tailored training programs to gain more exposure to new ideas and technical skills.

The Consumer Trade and Marketing Department was restructured to provide more focus on customers and consumers.

A number of young highly talented Tanzanians were recruited to fill various positions and the Company's retention scheme for high performers was enhanced.

Improvements were made to the performance driven bonus scheme introduced in 2004. A new variable pay scheme for the sales force, "MOTISHA", was introduced during the year.

Various employees received "NYOTA" awards for demonstrating the Company's values and culture, namely, Innovation, Synergy, Quality and Commitment.

Students from various higher learning institutions in Tanzania interned at TCC. This annual program aims to expose young Tanzanians about to enter the job market to real life-business challenges through specific three months assignments.



## BUSINESS REVIEW (continued)

To enhance the working environment, branch offices were modernized and equipped with appropriate working tools. Significant improvements were made to the Company's medical scheme to include HIV/AIDS treatment for employees' spouses and children. This pioneering program is now in its fifth year and serves as a model for other companies to emulate.

These initiatives have helped drive the excellent volume performance in 2005.

### A socially responsible Company

Corporate Social Responsibility is about the way a business is run and the way it assumes its responsibility towards its core stakeholders. As a Corporate citizen, the Company recognizes and is committed to fulfilling its social responsibility.

#### *Corporate governance*

Tanzania Cigarette Company is a subsidiary of JTI. It is publicly listed on the Dar es Salaam Stock Exchange. The Company is committed to the principles and practices of good corporate governance and continually seeks improvements. The Company strictly follows its parent company's global standards, policies and procedures and operating guidelines. These include amongst others, responsible marketing, equal opportunity employer, code of conduct, environmental health and safety and corporate philanthropy.

#### *Responsible marketing*

Cigarettes are a controversial but legal product. The Company is committed to responsible marketing of its products. The Company believes smoking is an adult choice; minors should not smoke; no one should smoke without the knowledge of the risks of smoking; and at all times smokers should show courtesy to non-smokers and to society.



## BUSINESS REVIEW (continued)

### *Equal opportunity employer*

The Company is an equal opportunity employer and does not discriminate. It recruits new employees on the basis of ability and potential.

### *Code of conduct*

TCC's parent company, JTI, has in place a Code of Conduct. The Code of Conduct describes some of the most important legal and ethical obligations that must be adhered to in the conduct of business. It also describes the practices and procedures that must be followed in meeting those obligations. TCC strictly adheres to its parent company's Code of Conduct.

### *Environmental protection health and safety (EHS)*

The Company has in place an environmental, health and safety program (EHS). This program aims to minimize waste, cut emissions, conserve energy and avoid accidents at the work place. The Company's environmental program was ISO 14001 certified in 2004. This certification was maintained in 2005 following a clean audit report conducted by SGS, the certifying agency. In addition, the Company's occupational health and safety program was OHSAS 18001 certified in 2005. This is in line with the direction set by the parent company, JTI, and is a requirement for all factories operating under the Japan Tobacco Umbrella.

### *Corporate philanthropy*

As a company drawing on local communities for employees and also for customers, TCC believes in putting something back into those communities. The Company has corporate policies to offer help with social projects, humanitarian causes, educational initiatives and cultural events.

The Company donated Tshs. 150 million to various corporate philanthropy initiatives during the year. These included the establishment of an art, music and theater program for Dogodogo Street Children, support to Missionary of Charity Mburahati Orphanage, Miburani Water Project and sponsorship of Tanzania Culture Day.

In collaboration with Dogodogo Center for Street Children, the Company developed a program to assist socially displaced "street children" in Dar es Salaam, to develop their artistic talents through art, music and theater. It is expected that with the newly acquired skills, the children will one day be able to productively re-establish themselves into society.

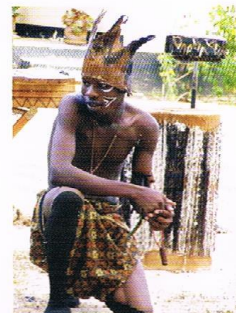
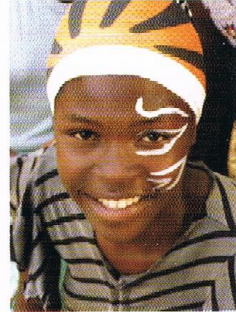
The Company donated beds, clothing and food and hosted a Christmas party for the elderly and orphans at Missionary of Charity Mburahati Orphanage.

The Company sponsored the first ever "Tanzania Cultural Day 2005". This historic event showcased and promoted the rich and diversified Tanzanian culture.

In addition, the Company constructed a water well to provide clean and safe water to over 30,000 inhabitants in and around Miburani in Temeke District. The project brings to a closure a long-standing water problem in the area.

### **Conclusion**

2005 has been a year of investment for future growth. This investment will drive future volume and profit growth, subject to a favorable operating environment.



**CORPORATE INFORMATION**  
For the year ended 31 December 2005

**DIRECTORS AND ADVISORS**

**Directors**

Mr. William Schulz, Jr. (Chairman and CEO)  
Mr. Gray Mgonja\*  
Mr. Paul Makanza  
Ms. Maria Kejo\*  
Mr. James Riordan\*  
Mr. David Thorn  
Mr. Jorge da Motta

\* *Non-executive Directors*

**Principal bankers**

Standard Chartered Bank Tanzania Ltd.  
CRDB Bank Ltd.  
National Bank of Commerce Ltd.  
National Micro-Finance Bank Ltd.  
Citibank Tanzania Ltd.  
Barclays Bank Tanzania Ltd.

**Secretary & registered office**

Mr. Vintan Willgis Mbiro  
20 Nyerere Road  
P.O. Box 40114  
Dar es Salaam  
Tel: +255 22 2860150

**Auditors**

Deloitte & Touche  
10th Floor PPF Tower, Ohio Street  
P.O. Box 1559  
Dar es Salaam

**SHAREHOLDING STRUCTURE**

Shareholder	% Holding**
JT International Holding B.V.	75.0%
Public Service Pension Fund	3.5%
Unit Trust of Tanzania	3.0%
Parastatal Pensions Fund	3.0%
United Republic of Tanzania	2.5%
National Social Security Fund	1.8%
Others	11.4%
Total	100.0%

Shareholder classification	% Holding**
Tanzanian	25.0%
Foreign	75.0%
Total	100.0%

\*\*Based on share register as at 5 October 2005

## REPORT OF THE DIRECTORS For the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005 which disclose the state of affairs of the company and the group.

### ACTIVITIES

The group's principal activities are the manufacture and sale of cigarettes.

### RESULTS

The group and company results for the year are set out on page 18. Group net profit for the year of Tshs. 17,051 million has been transferred to retained earnings (2004 – Tshs. 17,839 million).

### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company has adopted International Financial Reporting Standards (IFRS) in the preparation of the financial statements for the first time. This is in conformity with the change in requirements by the Tanzanian National Board of Accountants and Auditors (NBAA), which has adopted IFRS as the financial reporting framework with effect from accounting periods beginning on or after 1 July 2004.

### DIVIDENDS

During the year, the directors declared an interim gross dividend of Tshs. 7.8 billion or Tshs. 77.89 per share, which was paid in October 2005 (2004: Tshs. 7.8 billion or Tshs. 77.89 per share). After the year end, the directors have proposed a final gross dividend of Tshs. 7.8 billion or Tshs. 77.89 (2004: Tshs. 7.8 billion or Tshs. 77.89 per share). This final dividend is subject to approval by shareholders at the Annual General Meeting and, in line with the provisions of International Accounting Standard No 10, has not been included as a liability in these financial statements. Once approved, the total gross dividend relating to current year will equal to Tshs. 15.6 billion (2004: Tshs. 15.6 billion) or Tshs. 155.78 (2004: Tshs. 155.78) per share.

The total of the final ordinary dividend net of 5% withholding tax will be Tshs. 7.4 billion or Tshs. 74.0 per share (2004: Tshs. 7.4 billion or Tshs. 74.00 per share). This will be paid to all shareholders registered at the Dar es Salaam Stock Exchange (DSE) at the date announced through public notice.

### DIRECTORS

The directors of the company at the date of this report who, except as otherwise stated, served throughout the period are:

William Schulz, Jr.	Chairman and Chief Executive Officer	American
Gray Mgonja	Director (Non –Executive)	Tanzanian
María Kejo	Director (Non –Executive)	Tanzanian
Paul Makanza	Director (Executive)	Tanzanian
David Thorn	Director (Executive)	British
Jorge da Motta	Director (Executive)	South African
James Riordan	Director (Non – Executive)	Irish

In accordance with article 72 (a) of the amended Articles of Association, Messrs William Schulz, Jr. and James Riordan retire from the Board by rotation at the Annual General Meeting and do not offer themselves for re-election.



**REPORT OF THE DIRECTORS (continued)**  
**For the year ended 31 December 2005**

**DIRECTORS' INTERESTS**

The directors do not hold any material interest in the issued share capital of the company. Executive directors of Tanzanian nationality are permitted to receive share options from the Employee Share Option Scheme Trust.

**SOLVENCY**

The state of affairs of the Group and company as at 31 December 2005 is set out on page 19 of these financial statements. The Directors consider the company to be solvent, within the meaning ascribed by the Companies Ordinance (Cap. 212).

**RELATED PARTY TRANSACTIONS**

Details of transactions and balances with related parties are included in note 17 to the financial statements.

**CONTRACTS WITH RELATED PARTIES**

The Technical Services Agreement between JT International and the company signed in January 2000 is still in effect. Details of the agreement have been summarized in note 17 of the financial statements.

**CONTINGENT LIABILITIES**

The Company is currently involved in litigation with various third parties with respect to commercial, labour and tax disputes as stated in note 19 to the financial statements.

**AUDITORS**

A resolution to re-appoint the auditors, Deloitte & Touche, will be proposed at the Annual General Meeting.

**BY ORDER OF THE BOARD**



**Jorge da Motta**  
Director



**Gray Mgonja**  
Director

21st March, 2006  
Date

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Ordinance (Cap. 212) 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 and group as at the end of the financial year and of the operating results of the company and group for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the company and group. They are also responsible for safeguarding the assets of the company and group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Ordinance (Cap. 212). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and group and of their operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

  
**Jorge da Motta**  
Director

  
**Gray Mgonja**  
Director

21st March, 2006  
Date



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TANZANIA CIGARETTE COMPANY LIMITED**

We have audited the financial statements set out on pages 18 to 34 for the year ended 31 December 2005 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

As described on page 16, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

### **Basis of opinion**

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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion:

- (a) proper books of account have been kept by the company and the company financial statements are in agreement therewith;
- (b) the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2005 and of their profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Ordinance (Cap 212), 1932.

*Deloitte + Touche*

Certified Public Accountants (T)

**Dar es Salaam  
21st March, 2005**

**INCOME STATEMENT**  
For the year ended 31 December 2005

	Notes	GROUP		COMPANY	
		2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>Gross turnover</b>		135,643	120,517	135,643	120,517
Excise duty and VAT		<u>(59,305)</u>	<u>(50,529)</u>	<u>(59,305)</u>	<u>(50,529)</u>
<b>Net turnover</b>		<b>76,338</b>	<b>69,988</b>	<b>76,338</b>	<b>69,988</b>
Cost of sales		<u>(29,417)</u>	<u>(24,896)</u>	<u>(29,417)</u>	<u>(24,896)</u>
Gross profit		46,921	45,092	46,921	45,092
Selling and distribution costs		(10,707)	(9,722)	(10,707)	(9,722)
General and administrative costs		(12,916)	(9,555)	(12,910)	(9,548)
Other income/(expenses)		<u>93</u>	<u>(261)</u>	<u>93</u>	<u>(261)</u>
Operating profit	3	23,391	25,554	23,397	25,561
Net finance income	4	<u>376</u>	<u>72</u>	<u>376</u>	<u>72</u>
Profit before taxation		23,767	25,626	23,773	25,633
Taxation charge	5	<u>(6,716)</u>	<u>(7,787)</u>	<u>(6,716)</u>	<u>(7,787)</u>
Net profit for the year		<u>17,051</u>	<u>17,839</u>	<u>17,057</u>	<u>17,846</u>
Earnings per share (Tshs.)					
Basic and diluted	6	<u>170.51</u>	<u>178.39</u>		
Dividend per share (Tshs.)	13	<u>77.89</u>	<u>156.00</u>		

**BALANCE SHEET**  
As at 31 December 2005

	Notes	GROUP		COMPANY	
		2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	7	23,084	21,937	23,084	21,937
Intangible assets	8	2,646	-	2,646	-
Investment in subsidiary	9(a)	-	-	-	-
Loan receivable	9(b)	150	300	150	300
		<u>25,880</u>	<u>22,237</u>	<u>25,880</u>	<u>22,237</u>
<b>Current assets</b>					
Inventories	10	17,520	12,245	17,520	12,245
Trade and other receivables	11	8,205	4,901	8,225	4,913
Taxation recoverable		1,834	1,868	1,834	1,868
Bank balances and cash		<u>7,384</u>	<u>17,528</u>	<u>7,379</u>	<u>17,523</u>
		<u>34,943</u>	<u>36,542</u>	<u>34,958</u>	<u>36,549</u>
Total assets		<u>60,823</u>	<u>58,779</u>	<u>60,838</u>	<u>58,786</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	12	2,000	2,000	2,000	2,000
Retained earnings		41,987	32,725	42,537	33,269
Proposed dividends	13	-	7,789	-	7,789
Shareholders' equity		<u>43,987</u>	<u>42,514</u>	<u>44,537</u>	<u>43,058</u>
<b>Non current liabilities</b>					
Deferred tax liability	14	<u>1,453</u>	<u>1,673</u>	<u>1,453</u>	<u>1,673</u>
<b>Current liabilities</b>					
Trade and other payables	15	<u>15,383</u>	<u>14,592</u>	<u>14,848</u>	<u>14,055</u>
Total equity and liabilities		<u>60,823</u>	<u>58,779</u>	<u>60,838</u>	<u>58,786</u>

The financial statements on pages 18 to 34 were approved by the board of directors on 21st March 2006 and were signed on their behalf by:

  
Jorge da Motta  
Director

  
Gray Mgonja  
Director

**STATEMENTS OF CHANGES IN EQUITY**  
For the year ended 31 December 2005

	Share capital Tshs. M	Revaluation reserve Tshs. M	Retained earnings Tshs. M	Proposed dividend Tshs. M	Total Tshs. M
<b>GROUP</b>					
At 1 January 2004	2,000	4,369	26,095	14,105	46,569
Net profit for the year	-	-	17,839	-	17,839
Release of revaluation reserve	-	(4,369)	4,369	-	-
Dividends					
- Final paid for 2003	-	-	-	(14,105)	(14,105)
- Interim paid for 2004	-	-	(7,789)	-	(7,789)
- Final proposed for 2004	-	-	(7,789)	7,789	-
At 31 December 2004	<u>2,000</u>	<u>-</u>	<u>32,725</u>	<u>7,789</u>	<u>42,514</u>
At 1 January 2005	2,000	-	32,725	7,789	42,514
Net profit for the year	-	-	17,051	-	17,051
Dividends					
- Final paid for 2004	-	-	-	(7,789)	(7,789)
- Interim paid for 2005	-	-	(7,789)	-	(7,789)
At 31 December 2005	<u>2,000</u>	<u>-</u>	<u>41,987</u>	<u>-</u>	<u>43,987</u>
<b>COMPANY</b>					
At 1 January 2004	2,000	4,369	26,632	14,105	47,106
Net profit for the year	-	-	17,846	-	17,846
Release of revaluation reserve	-	(4,369)	4,369	-	-
Dividends					
- Final paid for 2003	-	-	-	(14,105)	(14,105)
- Interim paid for 2004	-	-	(7,789)	-	(7,789)
- Final proposed for 2004	-	-	(7,789)	7,789	-
At 31 December 2004	<u>2,000</u>	<u>-</u>	<u>33,269</u>	<u>7,789</u>	<u>43,058</u>
At 1 January 2005	2,000	-	33,269	7,789	43,058
Net profit for the year	-	-	17,057	-	17,057
Dividends					
- Final paid for 2004	-	-	-	(7,789)	(7,789)
- Interim paid for 2005	-	-	(7,789)	-	(7,789)
At 31 December 2005	<u>2,000</u>	<u>-</u>	<u>42,537</u>	<u>-</u>	<u>44,537</u>

**CASH FLOW STATEMENT**  
For the year ended 31 December 2005

	Notes	GROUP		COMPANY	
		2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>Operating activities</b>					
Cash generated from operations	16.1	19,252	29,383	19,252	29,383
Interest received		424	371	424	371
Taxation paid		<u>(6,902)</u>	<u>(8,587)</u>	<u>(6,902)</u>	<u>(8,587)</u>
Net cash from operating activities		<u>12,774</u>	<u>21,167</u>	<u>12,774</u>	<u>21,167</u>
<b>Investing activities</b>					
Proceeds on disposal of property, plant and equipment		77	1,209	77	1,209
Loan repayment received		150	-	150	-
Purchase of trade mark		(2,646)	-	(2,646)	-
Additions to property, plant and equipment		<u>(4,933)</u>	<u>(5,635)</u>	<u>(4,933)</u>	<u>(5,635)</u>
Net cash used in investing activities		<u>(7,352)</u>	<u>(4,426)</u>	<u>(7,352)</u>	<u>(4,426)</u>
<b>Financing activities</b>					
Dividends paid	16.3	<u>(15,566)</u>	<u>(22,362)</u>	<u>(15,566)</u>	<u>(22,362)</u>
<b>Net decrease in bank balances and cash</b>		(10,144)	(5,621)	(10,144)	(5,621)
<b>Bank and cash balances at beginning of year</b>		<u>17,528</u>	<u>23,149</u>	<u>17,523</u>	<u>23,144</u>
<b>Bank and cash balances at end of year</b>		<u>7,384</u>	<u>17,528</u>	<u>7,379</u>	<u>17,523</u>



## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

### 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The principal accounting policies adopted are set out below:

#### **Basis of accounting**

The financial statements have been prepared on the historical cost basis, modified where appropriate to include the revaluation of certain property, plant and equipment.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and its wholly owned subsidiary, TCC (Kenya) Limited, made up to 31 December each year.

All inter-company transactions, balances and unrealised gains on transactions between the two companies have been eliminated on consolidation. Unrealised losses are also eliminated unless cost cannot be recovered.

#### **Revenue recognition**

Gross turnover comprises the invoiced value of sales and is recognised when goods are delivered and accepted by the customers. Gross turnover includes excise duty and value added tax.

Interest income is recognised on a time proportion basis.

#### **Foreign currency translation**

Transactions in currencies other than Tanzania Shilling are recorded at the average monthly exchange rates prevailing on the dates of the transactions. All assets and liabilities denominated in foreign currencies are translated into Tanzania Shillings at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the income statement in the year in which they arise.

#### **Retirement benefits obligations**

The Group makes statutory contributions to the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). The Group's obligations with respect to contributions are 10% and 15% of the employees' gross and basic emoluments for NSSF and PPF members respectively. The Group's contributions with respect to these retirement benefits obligations are charged to the income statement in the period to which they relate.

#### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**1. ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at currently enacted tax rates and the net movement charged or credited in the income statement.

**Investments**

Investment in subsidiary is recognized at cost less impairment provision.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Group or the company as the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are amortised on the straight line basis over the term of the relevant lease.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials and consumable stores are determined by the weighted average cost method. Cost of finished goods and work in progress are valued at direct raw material cost and include a portion of manufacturing overhead expenses, determined on a weighted average basis. Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Property, plant and equipment**

Items of property, plant and equipment are stated at cost or as professionally valued less accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates that will write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

	%
Permanent buildings	2.0
Temporary buildings	33.3
Plant and machinery	5.0 – 20.0
Other equipment	10.0 – 33.3
Motor vehicles	25.0 – 33.3
Advertising equipment	25.0
Capital work in progress	Nil

Property, plant and equipment were last revalued in 1994 and the revaluation surplus recorded in the financial statements. Since 1994, the company adopted a policy not to revalue property, plant and equipment and to record additions at cost. However, being the first year of IFRS adoption, the company has elected to use the existing valuation as deemed cost as allowed under IFRS No.1, First-time Adoption of International Financial Reporting Standards.

Property, plant and equipment are periodically reviewed for impairment. If the carrying value of an asset is estimated to be greater than its recoverable amount, it is written down to its estimated recoverable amount.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**1. ACCOUNTING POLICIES (continued)**

The gain or loss arising on the disposal or retirement of an asset is determined between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

**Trademarks**

Trademarks are initially measured at purchase cost and are amortised on a straight line basis over their estimated useful lives. The estimate of useful life of the current trademark is 10 years.

**Financial instruments**

Financial instruments are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments.

**Investments**

Investments are stated at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in value. Where there has been a permanent diminution, in the value of an investment, it is recognised as an expense in the income statement in the year in which diminution is determined.

**Trade and other receivables**

Trade and other receivables are stated at invoice amounts less provision for impairment. A provision for impairment is established when there is objective evidence that the company will not be able to collect the amounts due according to the original terms of the original receivable. Provisions for impairment are recorded in the year in which they are identified.

**Trade and other payables**

Trade and other payables are stated at their nominal value.

**Impairment**

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

**Dividends**

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the balance sheet date are not recognized as liabilities at the balance sheet date. Dividends receivable are recognised to income upon notification of declaration of the dividends of investee companies.

**Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

	GROUP		COMPANY	
	2005	2004	2005	2004
	Tshs. M	Tshs. M	Tshs. M	Tshs. M
<b>5. TAXATION</b>				
<b>5.1 Taxation charge</b>				
Current taxation				
Current taxation at 30%	7,511	7,605	7,511	7,605
Prior years overprovision	<u>(575)</u>	<u>-</u>	<u>(575)</u>	<u>-</u>
	6,936	7,605	6,936	7,605
Deferred taxation – (note 14)				
Current year (credit)/charge	(220)	182	(220)	182
	<u>6,716</u>	<u>7,787</u>	<u>6,716</u>	<u>7,787</u>
<b>5.2 Reconciliation of tax based on accounting profit to tax charge</b>				
Accounting profit before tax	<u>23,767</u>	<u>25,626</u>	<u>23,773</u>	<u>25,633</u>
Tax charge at 30%	7,130	7,687	7,132	7,690
Income subject to lower rate of tax or not subject to tax	(13)	(184)	(13)	(184)
Disallowable expenditure	172	281	172	281
Prior years overprovision	(575)	-	(575)	-
Deferred tax asset not recognised (note 5.3)	<u>2</u>	<u>3</u>	<u>-</u>	<u>-</u>
Taxation charge	<u>6,716</u>	<u>7,787</u>	<u>6,716</u>	<u>7,787</u>

**5.3 Deferred tax asset not recognised**

The deferred tax asset has not been recognised in the financial statements of the subsidiary company, TCC (Kenya) Limited, because the company ceased operations and it is uncertain that there will be sufficient future profits against which the accumulated tax losses can be utilised.

**6. EARNINGS PER SHARE**

The earnings per share is calculated by dividing the net profit attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year.

	GROUP	
	2005	2004
Profit attributable to ordinary shareholders (Tshs.M)	17,051	17,839
Weighted average number of ordinary shares in issue (million)	100	100
Earnings per share (Tshs.)	<u>170.51</u>	<u>178.39</u>

There were no potentially dilutive shares outstanding at 31 December 2005 or 31 December 2004.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**7. PROPERTY, PLANT AND EQUIPMENT - GROUP AND COMPANY**

	Leasehold property	Plant and machinery	Other equipment	Motor vehicles	Capital work in progress	Total
	Tshs. M	Tshs. M	Tshs. M	Tshs. M	Tshs. M	Tshs. M
<b>COST</b>						
At 1 January 2004	10,294	19,945	2,469	3,078	2,210	37,996
Additions	391	1,850	909	1,549	938	5,635
Transfers	-	967	-	-	(967)	-
Disposals	<u>(573)</u>	<u>(315)</u>	<u>(347)</u>	<u>(1,104)</u>	-	<u>(2,339)</u>
At 31 December 2004	<u>10,112</u>	<u>22,447</u>	<u>3,031</u>	<u>3,523</u>	<u>2,179</u>	<u>41,292</u>
At 1 January 2005	10,112	22,447	3,031	3,523	2,179	41,292
Additions	1,437	201	202	893	2,200	4,933
Transfers	525	1,547	78	-	(2,150)	-
Disposals	-	-	-	(305)	-	(305)
At 31 December 2005	<u>12,074</u>	<u>24,195</u>	<u>3,311</u>	<u>4,111</u>	<u>2,229</u>	<u>45,920</u>
<b>DEPRECIATION</b>						
At 1 January 2004	2,146	11,728	1,627	2,222	-	17,723
Charge for the year	291	2,068	300	618	-	3,277
Eliminated on disposals	<u>(75)</u>	<u>(262)</u>	<u>(204)</u>	<u>(1,104)</u>	-	<u>(1,645)</u>
At 31 December 2004	<u>2,362</u>	<u>13,534</u>	<u>1,723</u>	<u>1,736</u>	-	<u>19,355</u>
At 1 January 2005	2,362	13,534	1,723	1,736	-	19,355
Charge for the year	298	2,271	505	708	-	3,782
Eliminated on disposals	-	-	-	(301)	-	(301)
At 31 December 2005	<u>2,660</u>	<u>15,805</u>	<u>2,228</u>	<u>2,143</u>	-	<u>22,836</u>
<b>NET BOOK VALUE</b>						
At 31 December 2005	<u>9,414</u>	<u>8,390</u>	<u>1,083</u>	<u>1,968</u>	<u>2,229</u>	<u>23,084</u>
At 31 December 2004	<u>7,750</u>	<u>8,913</u>	<u>1,308</u>	<u>1,787</u>	<u>2,179</u>	<u>21,937</u>

The capital work in progress represents expenditure incurred in respect of ongoing factory upgrade and branch renovations.

The cost and carrying value of leasehold land is negligible and has, therefore, not been reclassified to prepaid lease in line with International Accounting Standard No.17, Leases.

Being the first year of IFRS adoption, the company has elected to use the existing valuation as deemed cost as allowed under IFRS No.1, First-time Adoption of International Financial Reporting Standards.

In addition, to comply with the revisions to IAS 16 Property, Plant and Equipment, that are effective for the current period, the Group has reviewed the useful lives and residual values used for the purposes of depreciation calculations in light of the amended definition of residual value in the revised standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the IAS 16 requirements, these residual values and useful lives will be reviewed and updated annually in the future.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

	GROUP		COMPANY	
	2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>8. INTANGIBLE ASSETS</b>				
<b>Cost</b>				
As at 1 January	-	-	-	-
Additions	<u>2,646</u>	-	<u>2,646</u>	-
At 31 December	<u>2,646</u>	-	<u>2,646</u>	-
<b>Amortisation</b>				
As at 1 January	-	-	-	-
Charge for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value	<u>2,646</u>	<u>-</u>	<u>2,646</u>	<u>-</u>

The intangible assets relate to cigarette trademarks purchased during the year. No amortisation has been charged in the year as the acquisitions were made close to the year end.

	GROUP		COMPANY	
	2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>9. (a) INVESTMENT IN SUBSIDIARY</b>				
TCC (Kenya) Limited	-	-	534	534
Provision for impairment	<u>-</u>	<u>-</u>	<u>(534)</u>	<u>(534)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>(b) LOAN RECEIVABLE</b>				
TCC ESOS	<u>150</u>	<u>300</u>	<u>150</u>	<u>300</u>

**Investment in subsidiary**

Investment in subsidiary represents the shares held in TCC (Kenya) Limited, a wholly-owned subsidiary, which is incorporated in Kenya under the Kenya Companies Act. The principal activities of the subsidiary are the importation, distribution and wholesaling of tobacco products. However, the company has not been trading since 31 December 2002 and full impairment provision has been made in the financial statements.

**Loan receivable**

The loan receivable represents the balance on a loan of original amount of Tshs 820 million to a trust established for the employees share scheme – The Registered Trustees of The TCC Employees' Share Option Scheme (ESOS). The loan is interest free and is repaid in installments in amounts and at times that the Trust determines, based on the value of its assets compared to its obligations to the employees in accordance with the scheme. The company has not discounted the balance of the loan on the amortised cost basis because the effect would not be material.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

	GROUP		COMPANY	
	2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>10. INVENTORIES</b>				
Raw materials	11,037	6,966	11,037	6,966
Work in progress	44	29	44	29
Consumable stores	1,530	1,553	1,530	1,553
Goods in transit	2,322	835	2,322	835
Finished goods	<u>2,773</u>	<u>3,030</u>	<u>2,773</u>	<u>3,030</u>
	17,706	12,413	17,706	12,413
Provision for obsolescence	<u>(186)</u>	<u>(168)</u>	<u>(186)</u>	<u>(168)</u>
	<u>17,520</u>	<u>12,245</u>	<u>17,520</u>	<u>12,245</u>

**11. TRADE AND OTHER RECEIVABLES**

Trade receivables	2,249	3,872	2,249	3,872
Amounts due from related companies	9	72	29	84
Prepayments and other receivables	<u>6,390</u>	<u>1,413</u>	<u>6,390</u>	<u>1,413</u>
	8,648	5,357	8,668	5,369
Provision for doubtful receivables	<u>(443)</u>	<u>(456)</u>	<u>(443)</u>	<u>(456)</u>
	<u>8,205</u>	<u>4,901</u>	<u>8,225</u>	<u>4,913</u>

**2005**  
**Tshs. M**

**2004**  
**Tshs. M**

**12. SHARE CAPITAL – GROUP AND COMPANY**

<b>Authorised:</b>		
125,000,000 Ordinary shares of Tshs. 20 each	<u>2,500</u>	<u>2,500</u>
<b>Issued and fully paid:</b>		
100,000,000 Ordinary shares of Tshs. 20 each	<u>2,000</u>	<u>2,000</u>

There were no movements in the share capital of the company during the year. The company has one class of ordinary shares which carries no right to fixed income. The ownership structure of the company is as set out below:

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**12. SHARE CAPITAL (continued)**

	2005	2004	2005	2004
	Ordinary Shares Million	Ordinary shares Million	Holding %	Holding %
<b>Resident shareholders:</b>				
United Republic of Tanzania	2.5	2.5	2.5	2.5
Unit Trust of Tanzania	3.0	3.0	3.0	3.0
Public Service Pension Fund	3.5	3.1	3.5	3.1
Parastatal Pensions Fund	3.0	2.9	3.0	2.9
National Social Security Fund	1.6	2.1	1.6	2.1
General public	11.4	11.4	11.4	11.4
	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>
<b>Non-resident shareholders</b>				
JT International Holding B. V.	75.0	75.0	75.0	75.0
	<u>75.0</u>	<u>75.0</u>	<u>75.0</u>	<u>75.0</u>
<b>Total ordinary shares in issue</b>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

	GROUP		COMPANY	
	2005	2004	2005	2004
	Tshs. M	Tshs. M	Tshs. M	Tshs. M
<b>13. DIVIDENDS</b>				
<b>Paid:</b>				
Interim dividend	<u>7,789</u>	<u>7,789</u>	<u>7,789</u>	<u>7,789</u>
<b>Proposed:</b>				
Final dividend	<u>-</u>	<u>7,789</u>	<u>-</u>	<u>7,789</u>
<b>Total:</b>	<u>7,789</u>	<u>15,578</u>	<u>7,789</u>	<u>15,578</u>
Weighted average number of ordinary shares in issue (million)	<u>100</u>	<u>100</u>		
Dividend per share (Tshs)	<u>77.89</u>	<u>156</u>		

In October 2005, an interim dividend of Tshs. 77.89 per share (total dividend of Tshs. 7,789 million) was paid to shareholders. In the comparative year, an equal amount of interim dividend was paid to shareholders.

In respect of the current year, the directors propose that a final dividend of Tshs 77.89 per share (total dividend of Tshs. 7,789 million) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and, in line with the provisions of International Accounting Standard No 10, has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register at the Dar es Salaam Stock Exchange (DSE) at the date announced through public notice.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

	GROUP		COMPANY	
	2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>14. DEFERRED TAX</b>				
The net deferred tax liability is attributable to the following:				
Accelerated capital allowances	<u>1,453</u>	<u>1,673</u>	<u>1,453</u>	<u>1,673</u>
The movement on the deferred tax account is as follows:				
Balance at beginning of year	1,673	1,491	1,673	1,491
(Credit)/charge to income statement (note 5)	<u>(220)</u>	<u>182</u>	<u>(220)</u>	<u>182</u>
Balance at end of the year	<u>1,453</u>	<u>1,673</u>	<u>1,453</u>	<u>1,673</u>
<b>15. TRADE AND OTHER PAYABLES</b>				
Trade payables	5,420	905	5,420	902
Amounts due to related companies	1,918	2,311	1,918	2,311
Excise tax and VAT payable	3,108	4,091	3,108	4,091
Dividends payable	115	103	115	103
Other liabilities and accruals	<u>4,822</u>	<u>7,182</u>	<u>4,287</u>	<u>6,648</u>
	<u>15,383</u>	<u>14,592</u>	<u>14,848</u>	<u>14,055</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**16. NOTES TO THE CASH FLOW STATEMENT**

	GROUP		COMPANY	
	2005	2004	2005	2004
	Tshs. M	Tshs. M	Tshs. M	Tshs. M
<b>16.1 Reconciliation of operating profit to cash generated from operations</b>				
Operating profit	23,391	25,554	23,397	25,561
Adjustments for:				
Depreciation	3,782	3,277	3,782	3,277
Profit on disposal of property, plant and equipment	(73)	(551)	(73)	(551)
Net foreign exchange losses	(48)	(299)	(48)	(299)
Other non-cash items (note 16.2)	<u>-</u>	<u>36</u>	<u>-</u>	<u>36</u>
	27,052	28,017	27,058	28,024
Working capital changes:				
(Increase)/decrease in inventories	(5,275)	2,337	(5,275)	2,337
Movement in amounts due (from)/to related companies	(330)	3,064	(338)	3,052
Increase in trade and other receivables	(3,367)	(2,447)	(3,367)	(2,447)
Increase/(decrease) in trade and other payables	<u>1,172</u>	<u>(1,588)</u>	<u>1,174</u>	<u>(1,583)</u>
Cash generated from operations	<u>19,252</u>	<u>29,383</u>	<u>19,252</u>	<u>29,383</u>
<b>16.2 Non - cash items</b>				
Property, plant and equipment written off	<u>-</u>	<u>36</u>	<u>-</u>	<u>36</u>
<b>16.3 Dividends paid</b>				
Dividend payable at 1 January	103	571	103	571
Dividend payable in the year	15,578	21,894	15,578	21,894
Dividend payable at 31 December	<u>(115)</u>	<u>(103)</u>	<u>(115)</u>	<u>(103)</u>
	<u>15,566</u>	<u>22,362</u>	<u>15,566</u>	<u>22,362</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

**17. RELATED PARTY TRANSACTIONS**

**GROUP AND COMPANY**

**Related companies**

The Group transacts with the ultimate holding company and other companies related to it by virtue of common shareholding. These transactions are made on normal commercial terms and conditions.

During the year, the following transactions were entered into with related parties

**Contracts with related parties**

A technical and know-how services agreement with J. T. International Holding B.V., the parent company, for the provision of technical and know-how services to the company has been in place since 1 January 2000. Amounts payable under this agreement are included under purchase of goods and services below. The charge for the year is Tshs 2,410 million (year 2004: Tshs 2,644 million).

**Other transactions with related parties**

	2005 Tshs. M	2004 Tshs. M
<b>i. Purchase of goods and services</b>		
J. T. International Companies	<u>9,797</u>	<u>7,958</u>
<b>ii. Related party balances</b>		

Outstanding balances with related companies as at the year end are shown on the balance sheet are shown in notes 11 and 15 of these financial statements.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	2005 Tshs. M	2004 Tshs. M
Short-term benefits	<u>1,216</u>	<u>926</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2005**

	GROUP		COMPANY	
	2005 Tshs. M	2004 Tshs. M	2005 Tshs. M	2004 Tshs. M
<b>18. CAPITAL COMMITMENTS</b>				
Authorised but not contracted for	51	103	51	103
Authorised and contracted for	<u>12,486</u>	<u>824</u>	<u>12,486</u>	<u>824</u>
	<u>12,537</u>	<u>927</u>	<u>12,537</u>	<u>927</u>

The capital commitments relate to investment in equipment and machinery to enhance production capacity, operational efficiency and product quality.

**19. CONTINGENT LIABILITIES**

The company is currently involved in a number of legal cases. However, provision has been made in these financial statements for amounts which, in the opinion of the directors, are probable that the company would incur in the event that it lost the related cases.

**20. POST BALANCE SHEET EVENTS**

At the date of signing the financial statements, the directors are not aware of any events which could have a material impact on the results and disclosures contained in these financial statements.

**21. INCORPORATION**

The company is incorporated in Tanzania under the Companies Ordinance (Cap. 212).

**22. ULTIMATE PARENT COMPANY**

The holding company is J T International Holding BV, a company domiciled in the Netherlands. The ultimate parent company is Japan Tobacco Inc., a company incorporated under the Commercial Code of Japan pursuant to the Japan Tobacco Inc. Law.

**23. CURRENCY**

These financial statements are presented in millions of Tanzania Shillings (Tshs. M).



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 41st Annual General Meeting of the Members of Tanzania Cigarette Company Limited in respect of the year ended December 31, 2005 will be held at the Movenpick Royal Palm Hotel, Dar es Salaam Tanzania, on Thursday April 13, 2006 at 11.00 hours.

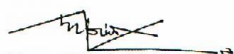
### AGENDA:

1. Confirmation of the Minutes of the previous Annual General Meeting.
2. Matters Arising.
3. Adoption of Accounts:  
To receive, consider and adopt Directors' Report and the Accounts for the Financial Year ended December 31, 2005.
4. To Adopt the Declaration of Dividend.
5. To Appoint the Auditors for the next Financial Year.
6. Resignation and Appointment of Directors.
7. Remuneration of Directors.
8. Any Other Business.

### NOTES:

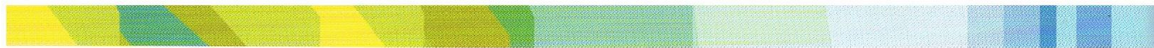
1. A member wishing to attend the meeting must come with a copy of his/her depository receipt or share certificate and his/her identification card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a PROXY to attend and vote in his/her stead in accordance with the provisions of the Company's Articles. A proxy form must be deposited at the Registered Office of the Company so as to arrive not later than 10.00 hours Wednesday, April 12, 2006.

### BY ORDER OF THE BOARD



**Vintan Willgis Mbiro**  
COMPANY SECRETARY  
March 9, 2006

Plot No. 20 Nyerere Road  
P.O. Box 40114,  
Dar es Salaam.



**PROXY**

To:  
The Company Secretary  
Tanzania Cigarette Company Limited,  
P. O. Box 40114,  
Dar es Salaam.

I/We .....  
.....  
.....  
.....of P.O. Box .....

member / members of Tanzania Cigarette Company Limited appoint

.....  
.....  
.....of P.O. Box .....

as my/our Proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday April 13, 2006, at the Movenpick Royal Palm Hotel, Dar es Salaam, Tanzania, or at any adjournment thereof.

As witness my/our hand/s this .....day of ..... 2006.

.....  
(Signature)

**Note:**

1. Affix Revenue Stamp of Tanzanian shillings 500/=
2. If a member is a corporation the Proxy must be either under seal or under the hand of an officer or attorney duly authorized.

