

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its majority and wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments of less than 50% but greater than 20% in affiliates are accounted for on the equity method.

Revenue Recognition:

Revenue is recognized from product sales upon shipment. Allowances for sales returns, customer incentive programs and promotions are recorded at the time of sale.

Restricted Cash:

Restricted cash of \$14.6 million and \$16.6 million included in other assets at December 31, 1996 and 1995, respectively, reflects segregated cash held for the benefit of certain parties to cover obligations related to certain prior dispositions and certain environmental and insurance matters.

Inventories:

Leaf tobacco is carried at the lower of average cost or market. In accordance with generally recognized industry practice, all leaf tobacco inventory is classified as current although portions of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year. Cigar and other inventories are generally valued at the lower of cost (using the first-in, first-out method) or market.

Property, Plant and Equipment:

Property, plant and equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives of such assets ranging from 3 to 20 years. Leasehold improvements are amortized over their estimated useful lives or the terms of the leases, whichever is shorter. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized.

Trademarks:

Trademarks consist of registered and unregistered tradenames of cigars or other tobacco brands which are being amortized on a straight-line basis over 40 years. Accumulated amortization of trademarks was \$3.3 million and \$2.5 million in 1996 and 1995, respectively.

F-9

MAFCO CONSOLIDATED GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets Related to Businesses Acquired:

Intangible assets related to businesses acquired primarily represents goodwill related to the 1993