

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
FOR
REPUBLIC TECHNOLOGIES (UK) LIMITED**



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FOR THE YEAR ENDING 31 DECEMBER 2018**

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**COMPANY INFORMATION
FOR THE YEAR ENDING 31 DECEMBER 2018**

DIRECTORS:

Mr J Catania
Mr S S Vila

SECRETARY:

Mr G M Long

REGISTERED OFFICE:

Sword House
Totteridge Road
High Wycombe
Buckinghamshire
HP13 6DG

REGISTERED NUMBER:

00873671 (England and Wales)

AUDITORS:

Ernst & Young LLP, Statutory Auditor
Chartered Accountants
400 Capability Green
Luton
Bedfordshire
LU1 3LU

**STRATEGIC REPORT
FOR THE YEAR ENDING 31 DECEMBER 2018**

The directors present their strategic report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

During the year the principal activities of the business were the sale and distribution of cigarette rolling papers and filters, matches, lighters and smoker's requisites. During 2018 the Company performance was strong and in keeping with expectations. The market place in which the Company operates continues to be volatile but in spite of this the results of the Company for 2018 have demonstrated that with sound business planning and effective delivery this volatility can be overcome. The Company remains well placed to benefit from further commercial opportunities as they arise in 2019 and beyond.

The accounts for the year ended 31 December 2018 show a profit of £3,121,000 (2017: £600,000).

MARKET

Market conditions remained volatile in 2018 but after events in late 2017 the Company was able to develop a direct and strong trading relationship with several key customers. Currency fluctuations to which the Company was exposed during the year were also dealt with effectively. Wider market Brexit speculation did not negatively impact sales performance during the year however the Company did develop strategic and operational plans to make sure that it would be prepared for the scheduled March 2019 Brexit date. To date the direction the UK and EU are to take regarding Brexit remains unknown but the Company still believes it is well placed to deal with any outcome that may occur.

KEY PERFORMANCE INDICATORS

In keeping with Company's objectives of continued business improvement and financial stability the Company operates a number of KPIs to monitor and control the business which are measured either on a daily, weekly or monthly basis as appropriate against agreed budgets and forecasts. The KPIs include, but are not limited to:

Revenue
Gross profit
Operating profit
Debtor days
Creditor days
Inventory days

Revenue increased by 4.5% year on year to £39,928,000 (2017: £38,215,000).

Gross profit has increased by 11.1% to £11,204,000 (2017: £10,089,000).

In the year to 31 December 2018 the Company made an operating profit of £3,854,000 (2017: £747,000).

Inventory days in 2018 were higher when compared to 2017. Average inventory days in 2018 were 57 (2017: 54).

Average debtor days in 2018 were 58 (2017: 61).

The creditor balance includes accruals for customer based promotional activity and retrospective rebate payments. Promotional activity increased during the year but rebate payments decreased during 2018, this coupled with different timings of events has resulted in higher accruals in 2018 when compared to 2017. This has increased the days outstanding. Overall the average creditor days in 2018 were 147 (2017: 135).

FRS 101

The company accounts are prepared using FRS101.

**STRATEGIC REPORT
FOR THE YEAR ENDING 31 DECEMBER 2018**

FUTURE STRATEGY

The Company will continue to focus on the sale and distribution of cigarette papers and filters for the RYO category together with other smoker's accessories including matches, lighters and requisites. The market segments in which we operate remains buoyant.

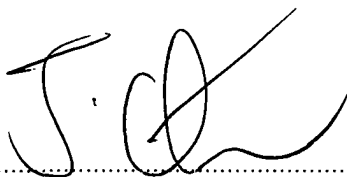
PRINCIPAL RISKS AND UNCERTAINTIES

In line with our internal control policy and procedures any key risk factors are reviewed frequently and detailed analysis undertaken where there is a requirement to do so. Mitigating controls or plans are implemented where necessary. Currency related cost price fluctuation could pose a risk with any devaluation of GBP. Customer credit risk is mitigated to a high degree by credit insurance. Effective screening and monitoring of key customer accounts is also undertaken to reduce risk.

GOING CONCERN

The Company's business activities, together with some key factors likely to affect its future development and position, are set out above. The Company has considerable resources and it is expected that the Company will continue to generate positive cash flows during 2019 and into the future. The Directors have a fair and reasonable expectation that the Company has and will continue to have the resources required to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the approval of these financial statements. The Directors therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

BY ORDER OF THE BOARD:



.....
Mr J Catania - Director

Date: 27 September 2019

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their report with the financial statements of the company for the year ended 31 December 2018.

RESULTS

The accounts for the year ended 31 December 2018 show a profit of £3,121,000 (2017: £600,000).

DIVIDENDS

The directors proposed and paid a dividend of £4,000,000 in 2018 (2017: £1,000,000).

DIRECTORS

The directors who served the company during the year were as follows:

Mr J Catania
Mr S S Vila

POLITICAL AND CHARITABLE DONATIONS

The Company made no political contributions during the year. Donations to UK charities amounted to £20. This was made under the following category;

Trade Charities £Nil

National Charities £20

2017 charitable donations amounted to £350.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

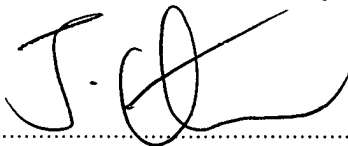
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

AUDITORS

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual Board Meeting for reappointment of Ernst & Young LLP as auditors of the Company.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to be 'J. Catania', written over a dotted line.

Mr J Catania - Director

Date: 27 September 2019

**THE INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF
REPUBLIC TECHNOLOGIES (UK) LIMITED**

Opinion

We have audited the financial statements of Republic Technologies (UK) Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 "Reduced Disclosure Framework". (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where;

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 2 and 3, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in the report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If based on work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact.

We have nothing to report in this regard.

**THE INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF
REPUBLIC TECHNOLOGIES (UK) LIMITED**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and the environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is to obtain reasonable assurances about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Mandip Dosanjh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
Date: 27 September 2019

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

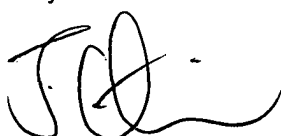
	Notes	2018 £'000	2017 £'000
REVENUE	3	39,928	38,215
Cost of sales		<u>(28,724)</u>	<u>(28,126)</u>
GROSS PROFIT		11,204	10,089
Distribution costs		(5,228)	(4,741)
Administrative expenses		<u>(2,122)</u>	<u>(4,601)</u>
		<u>(7,350)</u>	<u>(9,342)</u>
OPERATING PROFIT	6	3,854	747
Interest receivable and similar income	5	8	5
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	3,862	752
Tax on profit on ordinary activities	7	(741)	(152)
PROFIT FOR THE FINANCIAL YEAR		3,121	600
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>3,121</u>	<u>600</u>

All items above relate to continuing operations.

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
FIXED ASSETS			
Property, plant and equipment	9	1,685	1,844
Investments	10	-	-
		<u>1,685</u>	<u>1,844</u>
CURRENT ASSETS			
Inventories	11	4,898	3,886
Debtors	12	6,695	8,007
Cash at bank		<u>3,114</u>	<u>2,638</u>
		14,707	14,531
CREDITORS			
Amounts falling due within one year	13	<u>(12,012)</u>	<u>(11,377)</u>
NET CURRENT ASSETS		<u>2,695</u>	<u>3,154</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,380	4,998
PROVISIONS FOR LIABILITIES	15	<u>(809)</u>	<u>(548)</u>
NET ASSETS		<u>3,571</u>	<u>4,450</u>
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Retained earnings	17	<u>3,570</u>	<u>4,449</u>
SHAREHOLDERS' FUNDS		<u>3,571</u>	<u>4,450</u>

The financial statements were approved by the Board of Directors on 27 September 2019 and were signed on its behalf by:



Mr J Catania - Director

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	1	4,849	4,850
Changes in equity			
Dividends	-	(1,000)	(1,000)
Total comprehensive income	-	600	600
Balance at 31 December 2017	1	4,449	4,450
Changes in equity			
Dividends	-	(4,000)	(4,000)
Total comprehensive income	-	3,121	3,121
Balance at 31 December 2018	1	3,570	3,571

The notes on pages 11 to 25 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Republic Technologies (UK) Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on the 27 September 2019 and the Statement of Financial Position was signed on the board's behalf by Mr J Catania on 27 September 2019.

Republic Technologies (UK) Limited ('the company') is a company incorporated in England and Wales. The address of the registered office is Sword House, Totteridge Road, High Wycombe, Buckinghamshire, HP13 6DG. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with Companies Act 2006.

The functional and presentational currency of the financial statements has been determined to be in Sterling as the directors consider this to be the currency of the primary economic environment in which the company operates. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

2. ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Group Financial Statements

These financial statements are separate financial statements. The company is exempt under section 400 of the Companies Act 2006 from the preparation of consolidated financial statements, because it is included in the group accounts of Republic Technologies International SAS. The group accounts of Republic Technologies International SAS are available to the public and can be obtained as set out in note 20.

Basis of preparation

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council and the Companies Act 2006 ("The Act").

FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of the qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. The group accounts of Republic Technologies International SAS are available to the public and can be obtained as set out in note 20. The group accounts are prepared in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2018 and have had an effect on the financial statements:

IFRS 15 Revenue from Contracts with Customers

The company has adopted IFRS15 Revenue from Contracts with Customers from 1 January 2018. The standard has resulted in clarification of the revenue recognition accounting policies as detailed below in the revenue recognition policy.

IFRS 15 establishes a five step model to account for revenues arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring services or goods to a customer. However, no adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018) and the beginning of the earliest period presented (1 January 2017).

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 2018 resulted in the clarification of the accounting policies, which are set out below, but no changes in the amounts included in the financial statements. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The company's trade receivables for sale of stock are subject to IFRS 9's new expected credit loss model, and the company was required to revise its impairment methodology under IFRS 9 for this class of assets. The impact of the change in impairment methodology on the company's retained earnings and equity is not considered material.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was also considered to be immaterial. None of the other standards, interpretations and amendments effective for the first time from 1 January 2018 has had a material effect on the financial statements.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires the lessees to account for all leases in the Statement of Financial Position in a similar way to the accounting treatment prescribed in IAS 17 for finance leases. The company is continuing to evaluate the impact of adopting IFRS 16, and expects to apply the modified retrospective approach, with an adjustment to equity at 1 January 2019 and no adjustment to comparatives.

Transition will require the company's lease arrangements to be presented in the Balance Sheet, and adoption will impact on noncurrent assets and liabilities, together with certain measures of profitability.

Following transition IFRS 16 will, at the commencement of a new lease, require the lessee to recognise a liability for future lease payments, and an intangible asset representing the right to use that asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability, and the amortisation expense on the right of use asset in profit and loss account.

Disclosure of the nature of the company's existing operating leases, as well as the aggregate of the company's operating lease commitments on a gross basis is provided in note 14 to these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements:

Stock provisioning

Stocks are carried at the lower of cost and net realisable value. Management review stock lines for evidence of impairment and make due allowance in respect of items identified as being obsolete or slow moving items.

Depreciation of tangible fixed assets

Depreciation is provided in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Management reassess the depreciation methods, useful lives and residual values where there is an indication of a significant change in the pattern by which the Company expects to consume the asset's future economic benefits.

Bad debt provision

A provision for impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments are considered indicators that the trade debtor is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'administrative expenses'. When a trade debtor is uncollectable, it is written off against the allowance account for trade debtors. Subsequent recoveries of amount are written off against the allowance account for trade debtors.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Judgements and key sources of estimation uncertainty continued

Bad debt provision continued

Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the Statement of Comprehensive Income.

Provision

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions made in respect of industrial claims by former employees are charged against profits on the settlement of the claim. Provisions in respect of the onerous lease are charged against profits following discounting to their present value.

Management assess the industrial claims provision required by estimating the future claims by ex-employees. The onerous lease provision is assessed by forecasting future rent and rates for the next five years and discounting this to its present value using a discount rate of 3%.

Revenue recognition

Recognition

The company earns revenue from the sale of cigarette rolling papers and filters, matches, lighters and smokers requisites to customers. This revenue is recognised in the accounting period when control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in IFRS15 are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Fee arrangements

Below are details of fee arrangement and how these are measured and recognised, for revenue from the sale of products:

Revenue is recognised when we transfer control and performance obligations are met, usually on delivery of product to customer. Terms of the fee arrangement are detailed in the terms and conditions attached to the invoice.

Performance obligations

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the trade customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Revenue recognition continued

Transaction Price

The transaction price is the fair value of the consideration received for the product less discounts/rebates and value added taxes.

Payment of the transaction price is due in line with the agreed credit terms in each customer's contract.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract assets and receivables

Where goods or services are transferred to the customer before the customer pays consideration, or before payment is due, Contract assets are recognised. Contract assets are included in the Balance Sheet and represents the right to consideration for products delivered.

Contract receivables (loans and advances) are recognised in the Balance Sheet when the company's right to consideration becomes unconditional.

Contract assets & receivables (loans and advances) are classified as current or non-current based on the company's normal operating cycle and are assessed for impairment at each reporting date.

Contract liabilities

Contract liabilities and customer deposits are recognised in the Balance sheet when the company has received consideration but still has an obligation to deliver products that meet performance obligations for that consideration.

Net basis of measurement of contract balances

Contract asset and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether contract assets and liabilities are inter-dependent and if so, contract balances are reported net.

Impairment of contract related balances

At each reporting date, the company determines whether or not such assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Interest income

Interest income is recognised as income accrues using the effective interest method. The effective interest rate is the rate which exactly discounts estimated future cash receipts through the expected life of the financial instruments to its net carrying amount.

Rental income

Rental income arising from operating leases is accounted for on a straight line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Tangible fixed assets

Tangible assets except land are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Land is held at cost

Depreciation is provided on all tangible assets to write-off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its expected useful life as follows:

Buildings	40 - 50 years
Plant and machinery	3 - 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Residual values, useful lives and methods of depreciation are reviewed each financial year and adjusted prospectively if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of comprehensive income in the year that the asset is derecognised.

Financial instruments

A Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset – recognition and measurement

Financial assets are recognised when the entity becomes party to the contract and, as a consequence, has a legal right to receive cash.

All financial assets are initially measured at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date the company commits to purchase or sell the asset.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- (a) Financial assets at fair value through profit or loss or at fair value through other comprehensive income

There are no instruments which have been classified under this category

- (b) Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Financial asset – recognition and measurement continued

This category is the most relevant to the company. After initial measurement, such financial assets subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss.

Impairment of financial assets

In accordance with IFRS9 the company applies expected credit loss (ECL) model for measurement and the following financial assets and credit risk exposure:

- a) Financial assets that are debt instruments, and are measured at amortised cost e.g., loans, debt securities, deposits, trade receivables and bank balance.
- b) Trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of IFRS 15.

For trade and other receivables, the company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses and trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Financial liabilities – recognition and measurement

Financial liabilities are classified, at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities comprise of trade creditors, amounts owed to group undertakings and bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- c) Financial liabilities at fair value through profit or loss
- d) Loans and borrowings

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

The company does not have any financial liabilities which are subsequently re-measured at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset to the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Inventories

Finished goods are stated at the lower of cost and net realisable value in accordance with the principles of IAS 2 - Inventories. Cost is determined on a first in first out. Where necessary, provision is made for obsolete, slow moving and defective stocks on a systematic basis. Net realisable value represents the estimates selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the year end date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the yearend date.

The carrying amount of deferred income tax assets is reviewed at each year end date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

ACCOUNTING POLICIES continued

Foreign currencies

Transactions in currencies other than the company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each year end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

Employee benefit costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the director's best estimate of the expenditure required to settle the company's obligation.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. REVENUE

The revenue and profit before taxation are attributable to the principal activities of the company.

Class of business:	2018 £'000	2017 £'000
Smokers requisites and associated products	<u>39,928</u>	<u>38,215</u>

Revenue is primarily derived from UK sales.

4. EMPLOYEES AND DIRECTORS

- a. The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2018 No.	2017 No.
Distribution	27	28
Administration	<u>6</u>	<u>8</u>
	<u>33</u>	<u>36</u>

- b. The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	1,679	1,442
Social security costs	203	150
Pension costs (note 18)	<u>161</u>	<u>146</u>
	<u>2,043</u>	<u>1,738</u>

- c. Remuneration of directors

	2018 £'000	2017 £'000
Directors' emoluments	186	144
Company contributions to money purchase pension schemes	<u>26</u>	<u>16</u>
	<u>212</u>	<u>160</u>

Remuneration for certain directors has been borne by a related company. Certain directors are also directors of other companies within the Republic Technologies Group. These directors' services to the Company do not occupy a significant amount of time. As such these directors do not consider that they have received remuneration for incidental services to the company for the year.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2017 £'000
Bank account interest	<u>8</u>	<u>5</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. OPERATING PROFIT

The operating profit is stated after charging:

	2018	2017
	£'000	£'000
Depreciation - owned assets	183	148
Onerous lease provision	282	2
Property income	(135)	(128)
Auditors' remuneration: - audit of financial statements	36	32
Operating lease rentals in respect of: - plant and machinery	114	106
Operating lease rentals in respect of: - premises	182	182
Foreign exchange differences	115	158
Bad debt write off	77	2,860
Cost of stock recognised as expense in cost of sales	<u>28,069</u>	<u>24,496</u>

7. TAXATION

Analysis of tax expense

	2018	2017
	£'000	£'000
Current tax:		
Corporation tax	<u>762</u>	<u>163</u>
Total current tax	762	163
Deferred tax:		
Origination and reversal of temporary differences	<u>(21)</u>	<u>(11)</u>
Total tax expense in statement of comprehensive income	<u>741</u>	<u>152</u>

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£'000	£'000
Profit on ordinary activities before income tax	<u>3,862</u>	<u>752</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	734	145
Effects of:		
Expenses not deductible for tax purposes	6	3
Depreciation for period in excess of capital allowances	6	4
Other timing difference: - deferred tax	<u>(5)</u>	<u>-</u>
Tax expense for the year	<u>741</u>	<u>152</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

TAXATION continued

The weighted average applicable tax rate was 19.00% (2017 - 19.25%). The decrease is caused by the impact of the reductions in the UK tax rate as follows:

For periods to 31 March 2017	20%
For periods from 1 April 2018 to 31 March 2020	19%

The Finance Act 2016 provides a further reduction in the main rate of corporation tax to 17% from 1 April 2020. Although the 17% rate has been substantively enacted at the Balance Sheet date, this rate of tax has been applied in the measurement of the Company's deferred tax liabilities at 31 December 2018.

8. DIVIDENDS

	2018 £'000	2017 £'000
Ordinary shares of £1 each		
Interim	<u>4,000</u>	<u>1,000</u>

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Plant and machinery £'000	Totals £'000
COST			
At 1 January 2018	1,495	1,941	3,436
Additions	-	25	25
Disposals	<u>-</u>	<u>(245)</u>	<u>(245)</u>
At 31 December 2018	<u>1,495</u>	<u>1,721</u>	<u>3,216</u>
DEPRECIATION			
At 1 January 2018	139	1,453	1,592
Charge for year	24	160	184
Disposals	<u>-</u>	<u>(245)</u>	<u>(245)</u>
At 31 December 2018	<u>163</u>	<u>1,368</u>	<u>1,531</u>
NET BOOK VALUE			
At 31 December 2018	<u>1,332</u>	<u>353</u>	<u>1,685</u>
At 31 December 2017	<u>1,356</u>	<u>488</u>	<u>1,844</u>

Land

Included in land and buildings above is land valued at £500,000 (2017 - £500,000) which was acquired in the year ended 31 December 2011 at the same value. The directors consider this to represent its market value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. INVESTMENTS

As at 31 December 2018 the Company owned the beneficial interest in the entire issued share capital of Optinett (UK) Limited, OCB Papers (UK) Limited and Zig Zag (GB) Limited, all non-trading companies.

The companies in which the Company's interest at the year end is more than 20% are as follows:

Subsidiary undertaking	Country of incorporation	Principal activity	Class and percentage of shares held
Optinett (UK) Limited	United Kingdom	Dormant	Ordinary Shares 100%
Zig Zag (GB) Limited	United Kingdom	Dormant	Ordinary Shares 100%
OCB Papers (UK) Limited	United Kingdom	Dormant	Ordinary Shares 100%

11. INVENTORIES

	2018 £'000	2017 £'000
Finished goods	4,898	3,886

The difference between the carrying value of inventories and its replacement cost is not material.

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade debtors	6,554	7,617
Corporation tax debtor	-	237
Prepayments and accrued income	141	153
	<u>6,695</u>	<u>8,007</u>

Ageing of trade debtors

	1 - 30 days £'000	31 - 60 days £'000	61 - 90 days £'000	91 -120 days £'000	>120 days £'000
Year End: 31 December 2018	<u>3,933</u>	<u>1,420</u>	<u>821</u>	<u>169</u>	<u>211</u>
Year End: 31 December 2017	<u>4,618</u>	<u>1,916</u>	<u>888</u>	<u>86</u>	109

Bad debts totalling £76,958 were written off in the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade creditors	2,485	2,318
Amounts owed to group undertakings	3,571	3,319
Corporation tax	223	-
Social security and other taxes	365	569
Accruals and deferred income	5,368	5,171
	<u>12,012</u>	<u>11,377</u>

14. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2018 £'000	2017 £'000
Within one year	291	292
Between one and five years	821	903
In more than five years	13,767	14,131
	<u>14,879</u>	<u>15,326</u>

The Company has generated property rental income of £135,446 (2017 - £127,910) via subletting part of an office included above under a non-cancellable operating lease.

15. PROVISIONS FOR LIABILITIES

	2018 £'000	2017 £'000
Deferred tax	<u>29</u>	<u>50</u>
Other provisions		
Onerous lease	<u>780</u>	<u>498</u>
	<u>780</u>	<u>498</u>
Aggregate amounts	<u>809</u>	<u>548</u>
	Deferred tax £'000	Onerous lease £'000
Balance at 1 January 2018	50	498
Profit and loss account movement during the year	<u>(21)</u>	<u>282</u>
Balance at 31 December 2018	<u>29</u>	<u>780</u>

Onerous lease

The Company has an onerous lease on premises no longer occupied. The Company is actively marketing this premises to sub-let however, it is yet to find a long term tenant. The Company has a provision for rent on the premises of 8 years, which the management believe is their most reliable estimate of the provision.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

16. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018 £	2017 £
1,200	Ordinary	£1	<u>1,200</u>	<u>1,200</u>

17. RESERVES

	Retained earnings £'000
At 1 January 2018	4,449
Profit for the year	3,121
Dividends	<u>(4,000)</u>
At 31 December 2018	<u>3,570</u>

18. PENSION COMMITMENTS

Defined contribution pension scheme

The Company operates a defined contribution pension scheme for qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the company are reduced by the amount of forfeited contributions.

The total pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £161,000 (2017 - £146,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

19. CONTINGENT LIABILITIES

The bank has issued a VAT bond in favour of HM Revenue and Customs, which amounted to £100,000 (2017 - £100,000) with full recourse to the company.

20. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Republic Technologies (International) SAS, a company incorporated in France. This is also the parent undertaking of the smallest group of which the Company is a member. Copies of the consolidated accounts of Republic Technologies International SAS are available upon request from

Republic Technologies International SAS
3750 Avenue Julien Panchot
BP 424, 66004 Perpignan
CEDEX
France

The directors consider that the Company's ultimate parent undertaking and controlling party is RTNA Holdings LLC incorporated in the United States of America which is also the largest group in which the results of Republic Technologies (UK) Limited are consolidated.