

Registered number: 06622136

NICOCIGS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**



NICOCIGS LIMITED

COMPANY INFORMATION

Directors	M W Inkster N Nathwani J F G Vroemen
Registered number	06622136
Registered office	Unit 19 Wainwright Street Birmingham B6 5TJ
Independent auditor	Rawlinson & Hunter Audit LLP Chartered Accountants & Statutory Auditor Eighth Floor 6 New Street Square New Fetter Lane London EC4A 3AQ

NICOCIGS LIMITED

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NICOCIGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The directors present their Annual Report, comprising the Strategic Report and Directors' Report, and audited financial statements of Nicocigs Limited ("the company") for the year ended 31 December 2015. The comparatives cover the 16 months ended 31 December 2014.

Principal activity

The company's principal activity during the year continued to be that of the supply of electronic cigarettes.

Business Review and Future Developments

The company has continued its integration into the Philip Morris International Inc. group of companies, which acquired the company in 2014. This has included the implementation of new accounting systems and internal controls.

The company has increased average monthly turnover from £1,409,700 in the prior period to £1,569,963 in 2015. This has been achieved following a significant marketing campaign and the company hopes to yield continued benefits of this campaign in the forthcoming year. The directors expect that this, coupled with returns from investment in product quality and information systems, will result in an improved financial position next year.

Principal risks and uncertainties

The business environment in which the company operates continues to be challenging as the company is subject to consumers' spending patterns and their disposable incomes. Competition is the major risk as the market becomes saturated with a large number of suppliers. In addition to this the company is subject to exchange rate fluctuations on its purchases. However the impact of this is mitigated by maintaining assets in the relevant currencies.

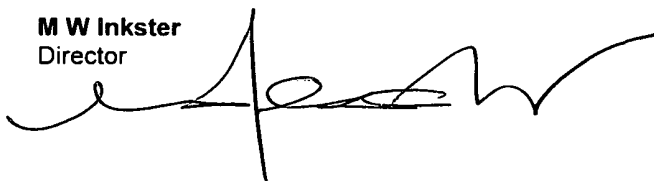
Financial key performance indicators

The key performance indicators of the company are those that communicate the financial performance and strength of the company as a whole and these are:

	12 months to 31/12/2015 £	16 months to 31/12/2014 £
Revenue	18,839,550	22,555,193
Gross profit %	39.0%	44.7%
(Loss)/Profit before tax	(6,576,614)	327,809
Net assets	1,538,872	8,050,706

This report was approved by the board on 29/9/16 and signed on its behalf.

M W Inkster
Director



NICOCIGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report and the financial statements of the company for the year ended 31 December 2015.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 judgments and accounting estimates that are reasonable and prudent; 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The loss for the year, after taxation, amounted to £6,511,834 (2014 - profit £243,096).

Directors

The directors who served during the year were:

M W Inkster
N Nathwani
J F G Vroemen

Matters covered in the Strategic Report

The directors have chosen, in accordance with Section 414C of the Companies Act 2006, to set out information relating to the review of business and future developments and key performance indicators, within the Strategic Report, which would otherwise be required to be contained within the Directors' Report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

NICOCIGS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015**

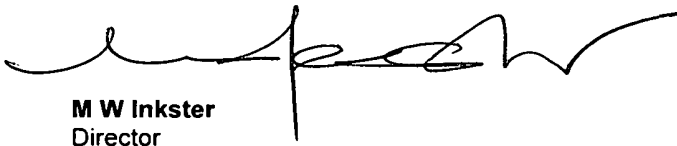
Post balance sheet events

There have been no significant events affecting the company since the year end.

Auditors

The auditor, Rawlinson & Hunter Audit LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 29/9/16 and signed on its behalf.



M W Inkster
Director

NICOCIGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NICOCIGS LIMITED

We have audited the financial statements of Nicocigs Limited ("the company") for the year ended 31 December 2015, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2006 and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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. In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

NICOCIGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NICOCIGS LIMITED (CONTINUED)

Matters on which we are required to report by exception

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.

Rawlinson & Hunter Audit LLP

Kulwam Nagra (Senior Statutory Auditor)
for and on behalf of

Rawlinson & Hunter Audit LLP

Statutory Auditor
Chartered Accountants
Eighth Floor
6 New Street Square
New Fetter Lane
London

EC4A 3AQ

Date: *29 September 2016*

NICOCIGS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Revenue	4	18,839,550	22,555,193
Cost of sales		(11,501,468)	(12,462,913)
Gross profit		7,338,082	10,092,280
Selling and distribution costs		(11,716,735)	(5,023,324)
Administrative expenses		(2,201,937)	(4,699,172)
Operating (loss)/profit	5	(6,580,590)	369,784
Finance income	9	3,976	2,586
Finance costs	10	-	(44,561)
(Loss)/profit before tax		(6,576,614)	327,809
Tax on (loss)/profit	11	64,780	(84,713)
(Loss)/profit for the year/period		(6,511,834)	243,096

There was no other comprehensive income for 2015 (2014 - £NIL).

The notes on pages 9 to 26 form part of these financial statements.

NICOCIGS LIMITED
REGISTERED NUMBER: 06622136

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	£	2015 £	£	2014 £
Non-current assets					
Property, plant and equipment	12		112,596		73,089
			<u>112,596</u>		<u>73,089</u>
Current assets					
Inventories	13	2,149,506		1,088,770	
Trade and other receivables	14	6,895,434		5,450,596	
Cash and cash equivalents	15	920,988		5,192,196	
		<u>9,965,928</u>		<u>11,731,562</u>	
Current liabilities					
Trade and other payables falling due within one year	16	(8,539,652)		(3,753,945)	
Net current assets			<u>1,426,276</u>	<u>7,977,617</u>	
Net assets			<u><u>1,538,872</u></u>	<u><u>8,050,706</u></u>	
Capital and reserves					
Called up share capital	19		141		141
Share premium account	20		101,577		101,577
Retained earnings	20		1,437,154		7,948,988
			<u><u>1,538,872</u></u>	<u><u>8,050,706</u></u>	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

29/9/16.



M W Inkster
Director

The notes on pages 9 to 26 form part of these financial statements.

NICOCIGS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Called up share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 January 2015	141	101,577	7,948,988	8,050,706
Comprehensive income for the year				
Loss for the year	-	-	(6,511,834)	(6,511,834)
Total comprehensive income for the year	-	-	(6,511,834)	(6,511,834)
At 31 December 2015	141	101,577	1,437,154	1,538,872

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Called up share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 September 2013	141	101,577	7,705,892	7,807,610
Comprehensive income for the period				
Profit for the period	-	-	243,096	243,096
Total comprehensive income for the period	-	-	243,096	243,096
At 31 December 2014	141	101,577	7,948,988	8,050,706

The notes on pages 9 to 26 form part of these financial statements.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. General information

Nicocigs Limited ("the company") supplies electronic cigarettes to retailers and direct to the general public. The company is a private company, incorporated and domiciled in the United Kingdom. The address of its registered office is Unit 19, Wainwright Street, Aston, Birmingham.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 101 is given in Note 24.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see Note 3).

First time application of FRS 100 and FRS 101

In the current year the company has adopted FRS 100 and FRS 101. In previous years the financial statements were prepared in accordance with applicable UK accounting standards.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with UK GAAP. Consequently the principal accounting policies are unchanged from the prior period. The change in basis of preparation has enabled the company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with UK GAAP.

The following principal accounting policies have been applied:

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. Accounting policies (continued)

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 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;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 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 paragraph 17 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, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2.3 Going concern

These financial statements are prepared on a going concern basis, under the historical cost convention.

At 31 December 2015, the company had net current assets of £1,426,276, however the company made a loss before tax of £6,576,614 and projects further losses, albeit at a reduced level, for 2016 and 2017.

These financial statements are prepared on a going concern basis that assumes the continued support of the its parent company, Philip Morris Holland Holdings B.V. The directors have received confirmation from Philip Morris Investments B.V. of its intention to provide such financial support as is necessary for the company to continue in operation for the foreseeable future and at least twelve months from the approval of these financial statements by the directors.

If the support of Philip Morris Holland Holdings B.V. was withdrawn and the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the Statement of Financial Position values of assets to their recoverable amounts and to provide for further liabilities that might arise and to reclassify non-current assets as current assets.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must all be met before revenue is recognised:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5 Plant, property and equipment

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Motor vehicles	- 20% straight line
Fixtures and fittings	- 20% straight line
Office equipment	- over 3-5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.6 Research and development costs

Development costs are capitalised within intangible assets where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on a straight line basis over the anticipated life of the benefits arising from the completed product or project.

Deferred research and development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related research and development is written off to the Statement of Comprehensive Income.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. Accounting policies (continued)

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase including freight and import duty on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

2.8 Trade and other receivables

Short term receivables are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.10 Financial instruments

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within Administrative Expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The company classifies all of its financial liabilities as liabilities at amortised cost.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. Accounting policies (continued)

2.10 Financial instruments (continued)

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

2.11 Trade and other payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'Finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'Administrative expenses'.

2.13 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. Accounting policies (continued)

2.14 Operating leases

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

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

2.15 Warranty provision

The company includes a warranty covering the battery in its products. The company recognises a provision based on historical experience and claims made after the year end, the cost of which is charged to the Statement of Comprehensive Income.

2.16 Loyalty scheme provision

The company operates a points-based loyalty scheme on products sold through its website. The company recognises a provision based on the revenue generated via its website, historical experience and redemptions made after the year, the cost of which is charged to the Statement of Comprehensive Income.

2.17 Finance income

Finance income is recognised in the Statement of Comprehensive Income using the effective interest method.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. Accounting policies (continued)

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

A net deferred tax asset is recognised only if it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management has to make judgements on how to apply the company's accounting policies and make estimates about the future. The critical judgemental that have been made in arriving at the amounts recognised in the financial statements and the key areas of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

Impairment of trade and other receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See Note 14 for the net carrying amount of the receivables.

Inventory provision

The company holds inventory of £2,149,506 and as a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and the condition of the inventory, as well applying assumptions around future usage. See Note 13 for the net carrying amount of inventory.

Allowance for returns

In calculating revenue for the year the company makes an allowance for the expected returns from sales in the year. When assessing the allowance for returns, management considers historical experience, customer inventory levels and changes in demand and acceptance of products by end customers. See Note 4 for an analysis of revenue for the year.

Warranty provision

The company includes a warranty covering the battery in its products. In calculating revenue for the year the company makes an allowance for the expected claims on the battery products sold in the year. When assessing the provision, management considers historical experience and claims made after the year end. See Note 4 for an analysis of revenue in the year.

Loyalty scheme provision

The company operates a points-based loyalty scheme on its website. Points are generated from products purchased by customers and can be redeemed in exchange for discounted (or free) products at a later date. When assessing the provision, management considers historical experience and redemptions made after the year end.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, further investments, economic utilisation and physical condition of the assets. See Note 2.5 for the useful economic lives for each class of asset and Note 12 for the net realisable value of plant, property and equipment.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Judgments in applying accounting policies (continued)

Deferred tax asset in respect of tax losses

A deferred tax asset in respect of trading losses is only recognised when it is probable that suitable taxable profits will be generated with which to utilise the loss. Management have considered projections for 2016 and 2017 and have concluded that it is not probable that future suitable profits will be generated in the near future and that the timeframe within which the return to profitability will be achieved is uncertain. Accordingly, no deferred tax asset has been recorded in respect of its tax losses carried forward. Refer to Note 11 for further details.

4. Turnover

Analysis of revenue by country of destination:

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
United Kingdom	17,802,871	19,394,140
Rest of Europe	1,034,632	2,690,691
Rest of the world	2,047	470,362
	<u>18,839,550</u>	<u>22,555,193</u>

The directors consider that the company operates in one business segment and as such no further analysis is required.

5. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Research & development charged as an expense	-	69,854
Depreciation of tangible fixed assets	29,736	48,768
Irrecoverable trade receivables	250,249	680,070
Exchange differences	12,358	15,661
Operating lease rentals:		
- plant and machinery	22,000	211,465
- other operating leases	44,880	50,629
	<u>339,223</u>	<u>966,387</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

6. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Auditors' remuneration	14,000	15,000
Auditors' remuneration for non-audit services	5,000	24,950
	19,000	39,950

7. Employees

Staff costs, including directors' remuneration, were as follows:

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Wages and salaries	2,584,178	2,607,826
Social security costs	186,986	211,062
	2,771,164	2,818,888

The average monthly number of employees, including the directors, during the period was as follows:

	12 months to 31 December 2015 No.	16 months to 31 December 2014 No.
Administration, selling & distribution	84	82

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

8. Directors' remuneration

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Directors' emoluments	127,056	142,328
	<u>127,056</u>	<u>142,328</u>

9. Finance income

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Bank interest receivable	3,976	2,586
	<u>3,976</u>	<u>2,586</u>

10. Finance costs

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Other interest payable	-	44,561
	<u>-</u>	<u>44,561</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. Income tax

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
Corporation tax		
Current tax on (loss)/profits for the year / period	(86,039)	99,518
Adjustments in respect of previous periods	15,615	-
Total current tax	(70,424)	99,518
Deferred tax		
Origination and reversal of timing differences (Note 18)	5,644	(14,805)
Total deferred tax	5,644	(14,805)
Taxation on (loss)/profit on ordinary activities	(64,780)	84,713

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11. Income tax (continued)

Factors affecting tax (credit) / charge for the year/period

The tax assessed for the year/period is higher than (2014 - *higher than*) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.875%). The differences are explained below:

	12 months to 31 December 2015 £	16 months to 31 December 2014 £
(Loss)/Profit on ordinary activities before tax	<u>(6,576,614)</u>	<u>327,809</u>
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.875%)	(1,331,764)	71,708
Effects of:		
Expenses not deductible for tax purposes	6,399	28,104
Differences between capital allowances for year/period and depreciation	1,522	9,217
Adjustments in respect of previous periods	15,615	-
Changes in provisions leading to an decrease in the tax charge	-	(9,511)
Unrelieved tax losses carried forward	1,323,843	-
Deferred tax on accelerated capital allowances	5,644	(14,805)
Carry-back on prior periods tax charge	(86,039)	-
Total tax (credit) / charge for the year/period	<u><u>(64,780)</u></u>	<u><u>84,713</u></u>

Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly the company's losses for its accounting period are taxed at a blended rate of 20.25%.

In addition to the changes in corporation tax disclosed above, further changes to the UK corporation tax system were announced in the July 2015 UK budget statement. These include proposals to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These further changes had not been substantively enacted at the Statement of Financial Position and therefore are not reflected in these financial statements.

The company has estimated tax losses carried forward of £6,500,000 (2014 - £NIL), which may be recoverable against future profits.

No deferred tax asset has been recognised in respect of losses carried forward as it is not considered more likely than not that there will be sufficient taxable profits to offset against the losses.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

12. Plant, property and equipment

	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
Cost or valuation				
At 1 January 2015	43,400	23,673	51,652	118,725
Additions	-	30,393	38,850	69,243
At 31 December 2015	43,400	54,066	90,502	187,968
Depreciation				
At 1 January 2015	29,175	6,439	10,022	45,636
Charge owned for the period	5,583	5,076	19,077	29,736
At 31 December 2015	34,758	11,515	29,099	75,372
Net book value				
At 31 December 2015	8,642	42,551	61,403	112,596
At 31 December 2014	14,225	17,234	41,630	73,089

13. Inventories

	2015 £	2014 £
Finished goods and goods for resale	2,149,506	1,088,770
	2,149,506	1,088,770

Inventories are stated after provisions of £237,511 (2014 - £698,424). The cost of inventories recognised as an expense during the year and included within cost of sales was £7,850,027 (2014 - £8,716,911). Inventories impairment recognised as an expense in the year totalled £108,392 (2014 - £698,424).

The difference between purchase price or production cost of inventory and their replacement cost is not material.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

14. Trade and other receivables

	2015 £	2014 £
Trade receivables	3,592,838	4,976,808
Amounts owed by group undertakings	2,474,045	-
Other receivables	349,223	189,331
Prepayments	470,167	269,652
Deferred taxation (Note 18)	9,161	14,805
	<u>6,895,434</u>	<u>5,450,596</u>

Trade receivables are stated net of a provision of £386,232 (2014 - £681,393).

Amounts owed by group undertakings represents the company's share of the Philip Finance S.A. joint cash pool. Philip Morris Finance S.A. is a company under common control.

15. Cash and cash equivalents

	2015 £	2014 £
Cash at bank and in hand	920,988	5,192,196
	<u>920,988</u>	<u>5,192,196</u>

16. Trade and other payables falling due within one year

	2015 £	2014 £
Trade payables	1,007,343	2,292,159
Amounts owed to group undertakings	1,149,439	-
Income tax	-	99,518
Taxation and social security	56,138	53,379
Other payables	185	128,590
Accruals	6,326,547	1,180,299
	<u>8,539,652</u>	<u>3,753,945</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

17. Financial instruments

	2015 £	2014 £
Financial assets		
Financial assets measured at fair value through profit or loss	920,988	5,192,196
Financial assets that are debt instruments measured at amortised cost	6,416,106	5,166,139
	<u>7,337,094</u>	<u>10,358,335</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(8,483,513)	(3,601,049)
	<u>(8,483,513)</u>	<u>(3,601,049)</u>

Financial assets measured at fair value through profit or loss comprise cash and cash equivalents.

Financial assets measured at amortised cost comprise trade and other receivables and amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise trade and other payables, amounts owed to group undertakings and accruals.

18. Deferred taxation

	2015 £
At beginning of year	14,805
Utilised in year	(5,644)
At end of year	<u>9,161</u>

The deferred tax asset is made up as follows:

	2015 £	2014 £
Accelerated capital allowances	9,161	14,805
	<u>9,161</u>	<u>14,805</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

19. Called up share capital

	2015 £	2014 £
Shares classified as equity		
Allotted, called up and fully paid		
100 Ordinary A Class shares of £1 each	100	100
41 Ordinary B Class shares of £1 each	41	41
	<u>141</u>	<u>141</u>

20. Reserves

Share premium

Share premium represents the difference between the the consideration paid and the nominal value on ordinary shares issued.

Profit and loss account

Retained earnings represents cumulative profits and losses net of dividends and other adjustments.

21. Commitments under operating leases

At 31 December 2015 the company had future minimum lease payments under non-cancellable operating leases ending as follows:

	2015 £	2014 £
Not later than 1 year	-	33,370
Later than 1 year and not later than 5 years	94,000	252,721
Total	<u>94,000</u>	<u>286,091</u>

22. Related party transactions

The company has taken advantage of the exemption not to disclose the transactions with other wholly owned subsidiary undertakings of the ultimate parent company, Philip Morris International Inc. in accordance with FRS 101.

During the year, the company incurred net entertaining costs of £1,250 in respect of Peachy Keens Buffet Limited, a company which N Nathwani, a director of the company controls. This amount was paid in 2016. In the 2014 period, the company rented storage space from Peachy Keens Buffet Limited in the amount of £23,062 of which £724 was outstanding at 31 December 2014.

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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23. Immediate and ultimate parent undertakings and controlling party

The immediate parent undertaking is Philip Morris Holland Holdings B.V., a company incorporated in the Netherlands.

The ultimate parent undertaking is Philip Morris International Inc., a company incorporated in the United States of America. The smallest and largest group for which group financial statements are prepared is Philip Morris International Inc. Copies of the group financial statements are available to the public on the Philip Morris International Inc.'s website.

The directors consider there to be no single ultimate controlling party.

24. First time adoption of FRS 101

The policies applied under the entity's previous accounting framework are not materially different to FRS 101 and have not impacted on equity or profit or loss.