
NICOCIGS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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NICOCIGS LIMITED

COMPANY INFORMATION

Directors	M W Inkster N Nathwani (resigned 30 March 2017) J F G Vroemen H Modabber (appointed 30 May 2017) P C Nixon (appointed 30 May 2017)
Registered number	06622136
Registered office	10 Hammersmith Grove London W6 7AP
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 2016

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 2016.

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 integration of back-office support and the implementation of further internal controls.

The company reports a reduced loss after taxation for the year, from £6,511,834 to £4,351,902. This has been achieved by a reduction in marketing and advertising spend.

From July 2017 the company has distributed electronic cigarettes through its fellow group company, Philip Morris Limited, rather than directly trading with customers.

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. The company views these fluctuations as short-term in nature and accordingly does not take out forward exchange contracts or any other type of financial instrument to mitigate the effect of currency fluctuations.

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:

	2016	2015
Revenue	£13,612,260	£18,839,550
Gross Profit %	43.5%	39.0%
Loss before tax	£4,357,820	£6,576,614
Net (liabilities)/assets	£(2,813,030)	£1,538,872
Staff numbers	83	84

This report was approved by the board on

26/09/2017

and signed on its behalf.


H Modabber
Director

NICOCIGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements of the company for the year ended 31 December 2016.

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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 £4,351,902 (2015 - loss £6,511,834).

Directors

The directors who served during the year and to the date of this report are:

M W Inkster
N Nathwani (resigned 30 March 2017)
J F G Vroemen
H Modabber (appointed 30 May 2017)
P C Nixon (appointed 30 May 2017)

NICOCIGS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Future developments

From July 2017 the company has distributed electronic cigarettes through its fellow group company, Philip Morris Limited, rather than directly trading with customers.

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:

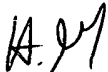
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor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

Auditor

Under section 487(2) of the Companies Act 2006, Rawlinson & Hunter Audit LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 26/09/2017

and signed on its behalf.



H Modabber
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 2016, 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 applicable law 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 2016 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, 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 those financial statements and such reports have been prepared in accordance with applicable legal requirements.

NICOCIGS LIMITED

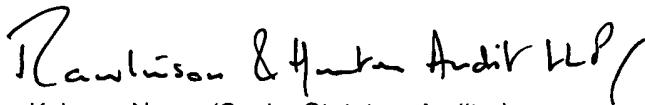
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NICOCIGS LIMITED (CONTINUED)

Matters on which we are required to report by exception

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.

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.



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: 26 September 2017

NICOCIGS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £	2015 £
Revenue	2,4	13,612,260	18,839,550
Cost of sales		(7,687,743)	(11,501,468)
Gross profit		5,924,517	7,338,082
Selling and distribution costs		(6,722,809)	(11,716,735)
Administrative expenses		(3,541,719)	(2,201,937)
Operating loss	5	(4,340,011)	(6,580,590)
Finance income	9	166	3,976
Finance costs	10	(17,975)	-
Loss before tax		(4,357,820)	(6,576,614)
Tax on loss	11	5,918	64,780
Loss for the year		(4,351,902)	(6,511,834)

There was no other comprehensive income for 2016 (2015 - £Nil).

The notes on pages 9 to 28 form part of these financial statements.

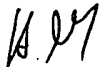
NICOCIGS LIMITED
REGISTERED NUMBER: 06622136

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 £	2015 £
Non-current assets			
Intangible assets	12	188,113	-
Plant, property and equipment	13	69,699	112,596
		<u>257,812</u>	<u>112,596</u>
Current assets			
Inventories	14	2,007,869	2,149,506
Trade and other receivables	15	3,934,251	6,895,434
Cash and cash equivalents	16	456,484	920,988
		<u>6,398,604</u>	<u>9,965,928</u>
Current liabilities			
Trade and other payables falling due within one year	17	(9,469,446)	(8,539,652)
		<u>(3,070,842)</u>	<u>1,426,276</u>
Net current (liabilities)/assets			
		<u>(2,813,030)</u>	<u>1,538,872</u>
Total assets less current liabilities			
		<u>(2,813,030)</u>	<u>1,538,872</u>
Net (liabilities)/assets			
		<u><u>(2,813,030)</u></u>	<u><u>1,538,872</u></u>
Capital and reserves			
Called up share capital	20	141	141
Share premium account	21	101,577	101,577
Profit and loss account	21	(2,914,748)	1,437,154
		<u>(2,813,030)</u>	<u>1,538,872</u>

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

26 SEP 2017



H Modabber

Director

The notes on pages 9 to 28 form part of these financial statements.

NICOCIGS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 January 2016	141	101,577	1,437,154	1,538,872
Comprehensive income for the year				
Loss for the year	-	-	(4,351,902)	(4,351,902)
Total comprehensive income for the year	-	-	(4,351,902)	(4,351,902)
At 31 December 2016	141	101,577	(2,914,748)	(2,813,030)

**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

The notes on pages 9 to 28 form part of these financial statements.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 in England & Wales. The address of its registered office is 10 Hammersmith Grove, London W6 7AP.

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.

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).

New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations and amendments which are effective for the first time in these financial statements have had a material impact on the financial statements.

Below is a list of standards which are anticipated to have a material impact to the company that are effective for the annual periods beginning after 1 January 2016 and earlier application is permitted; however, the company has not early adopted the new or amended standards in preparing these financial statements:

Revenue from contracts with customers (IFRS 15)

The new standard replaces existing revenue recognition guidance, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The full impact of IFRS 15 to the company has not yet been assessed.

Leases (IFRS 16)

The new standard replaces IAS 17. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IFRS 16, a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 becomes mandatory for accounting periods beginning on or after 1 January 2019. The full impact of IFRS 16 to the company has not yet been assessed.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 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, 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.

The following principal accounting policies have been applied:

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.3 Going concern

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

At 31 December 2016, the company had net current liabilities of £3,070,842 (2015 *net current assets* - £1,426,276). The company made a loss before tax of £4,357,820 (2015 - £6,576,614) and projects further losses, albeit at a reduced level, for 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.

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 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 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

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.

The estimated useful lives range as follows:

Website development	-	3	years
Software	-	3	years

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued).

2.6 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.

2.7 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.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

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.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

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.

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.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

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.

All 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.

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.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

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 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the company in independently administered funds.

2.17 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.

2.18 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 2016

2. Accounting policies (continued)

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge 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 2016

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

In preparing the financial statements, management has to make judgments on how to apply the company's accounting policies and make estimates about the future. The critical judgements 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 15 for the net carrying amount of the receivables.

Inventory provision

The company holds inventory of £2,007,869 (2015 - £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 as applying assumptions around future usage. See Note 14 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 2.6 for the useful economic lives for each class of asset and Note 13 for the net realisable value of plant, property and equipment.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. Judgments in applying accounting policies (continued)

Useful economic lives of intangible fixed assets

The annual amortisation charge for intangible fixed assets is sensitive to changes in the estimated useful economic lives and residual value of assets. The useful economic lives and residual values are reassessed annually. See Note 2.5 for the useful economic lives for each class of asset and Note 12 for the net realisable value of intangible fixed assets.

4. Revenue

Analysis of revenue by country of destination:

	2016 £	2015 £
United Kingdom	12,573,296	17,802,871
Rest of Europe	1,038,964	1,034,632
Rest of the world	-	2,047
	<u>13,612,260</u>	<u>18,839,550</u>

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

5. Operating loss

The operating loss is stated after charging:

	2016 £	2015 £
Amortisation of intangible assets	18,574	-
Depreciation of tangible fixed assets	42,897	29,736
Irrecoverable trade receivables	301,604	250,249
Exchange differences	41,694	12,358
Operating lease rentals:		
- plant and machinery	48,810	42,173
- other operating leases	154,036	70,623
Inventory provisions and write-offs	<u>1,197,402</u>	<u>237,511</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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:

	2016 £	2015 £
Auditors' remuneration	30,000	32,500
Auditors' remuneration for non-audit services	5,000	8,500
	<u>35,000</u>	<u>41,000</u>

7. Employees

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

	2016 £	2015 £
Wages and salaries	2,254,447	2,584,178
Social security costs	230,850	186,986
Cost of defined contribution scheme (Note 22)	13,713	-
	<u>2,499,010</u>	<u>2,771,164</u>

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

	2016 No.	2015 No.
Administration, selling & distribution	<u>83</u>	<u>84</u>

8. Directors' remuneration

	2016 £	2015 £
Directors' emoluments	125,000	127,056
Company contributions to defined contribution pension schemes	833	-
	<u>125,833</u>	<u>127,056</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. Finance income

	2016	2015
	£	£
Bank interest receivable	166	3,976
	<u>166</u>	<u>3,976</u>

10. Finance costs

	2016	2015
	£	£
Intercompany debt interest payable	17,975	-
	<u>17,975</u>	<u>-</u>

11. Income tax

	2016	2015
	£	£
Corporation tax		
Current tax on loss for the year	-	(86,039)
Adjustments in respect of previous periods	-	15,615
Total current tax	<u>-</u>	<u>(70,424)</u>
Deferred tax		
Origination and reversal of timing differences (Note 19)	(5,918)	5,644
Total deferred tax	<u>(5,918)</u>	<u>5,644</u>
Taxation on loss on ordinary activities	<u>(5,918)</u>	<u>(64,780)</u>

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

11. Income tax (continued)

Factors affecting tax credit for the year

The tax assessed for the year is higher than (2015 - *higher than*) the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before tax	(4,357,820)	(6,576,614)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%)	(871,564)	(1,331,764)
Effects of:		
Expenses not deductible for tax purposes	29,915	6,399
Depreciation in excess of capital allowances	3,624	1,522
Adjustments in respect of previous periods	-	15,615
Unrelieved tax losses carried forward	-	1,323,843
Deferred tax on accelerated capital allowances	-	5,644
Reduction in the effective rate for deferred tax	(2,661)	-
Tax losses surrendered to group undertakings	834,768	-
Carry-back on prior periods tax charge	-	(86,039)
Total tax credit for the year	(5,918)	(64,780)

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015 and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

The company has estimated tax losses carried forward of £Nil (2015 - £6,500,000), which may be recoverable against future profits. The tax losses carried forward in the 2015 financial statements was subsequently made available for group relief.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

12. Intangible assets

	Website development £	Software £	Total £
Cost			
Additions	16,200	190,487	206,687
At 31 December 2016	16,200	190,487	206,687
Amortisation			
Charge for the year	2,700	15,874	18,574
At 31 December 2016	2,700	15,874	18,574
Net book value			
At 31 December 2016	13,500	174,613	188,113
At 31 December 2015	-	-	-

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. Plant, property and equipment

	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
Cost				
At 1 January 2016	43,400	54,066	90,502	187,968
At 31 December 2016	43,400	54,066	90,502	187,968
Depreciation				
At 1 January 2016	34,758	11,515	29,099	75,372
Charge for the period on owned assets	8,642	23,025	11,230	42,897
At 31 December 2016	43,400	34,540	40,329	118,269
Net book value				
At 31 December 2016	-	19,526	50,173	69,699
At 31 December 2015	8,642	42,551	61,403	112,596

14. Inventories

	2016 £	2015 £
Finished goods and goods for resale	2,007,869	2,149,506
	2,007,869	2,149,506

Inventories are stated after provisions of £646,426 (2015 - £237,511). The cost of inventories recognised as an expense during the year and included within cost of sales was £5,796,120 (2015 - £7,850,027). Included in this amount are Inventory impairments and write-offs recognised as an expense in the year totalling £1,197,402 (2015 - £237,511).

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

15. Trade and other receivables

	2016 £	2015 £
Trade receivables	2,730,224	3,592,838
Amounts owed by group undertakings	408,357	2,474,045
Other receivables	538,631	349,223
Prepayments	241,960	470,167
Deferred taxation (Note 19)	15,079	9,161
	<u>3,934,251</u>	<u>6,895,434</u>

Trade receivables are stated net of a provision of £301,604 (2015 - £386,232).

Amounts owed by group undertakings in the current year represents payments made on behalf of Philip Morris Products S.A., a company under common control.

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

16. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	456,484	920,988
Less: bank overdrafts	(121,337)	-
	<u>335,147</u>	<u>920,988</u>

NICOCIGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. Trade and other payables falling due within one year

	2016 £	2015 £
Bank overdrafts	121,337	-
Trade payables	2,308,708	1,007,343
Amounts owed to group undertakings	5,292,527	1,149,440
Taxation and social security	74,115	56,138
Other payables	649	185
Accruals	1,672,110	6,326,546
	<u>9,469,446</u>	<u>8,539,652</u>

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

18. Financial instruments

	2016 £	2015 £
Financial assets		
Financial assets measured at fair value through profit or loss	456,484	920,988
Financial assets that are debt instruments measured at amortised cost	3,677,212	6,416,106
	<u>4,133,696</u>	<u>7,337,094</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(9,395,331)	(8,483,514)
	<u>(9,395,331)</u>	<u>(8,483,514)</u>

Financial assets measured at fair value through profit or loss comprise cash at bank and in hand.

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

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

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

19. Deferred taxation

	2016 £
At beginning of year	9,161
Credited to the Statement of Comprehensive Income (Note 11)	5,918
At end of year	15,079

The deferred tax asset is made up as follows:

	2016 £
Accelerated capital allowances	15,079
	15,079

The deferred taxation balance as at 31 December 2015 comprised solely of accelerated capital allowances.

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. Called up share capital

	2016 £	2015 £
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
	<hr/>	<hr/>
	141	141
	<hr/>	<hr/>

21. Reserves

Share premium account

Share premium represents the difference between 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.

22. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £13,713 (2015 - £Nil). There were no outstanding pension commitments at the current or prior year end.

23. Commitments under operating leases

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases ending as follows:

	2016 £	2015 £
Not later than 1 year	15,000	-
Later than 1 year and not later than 5 years	105,000	94,000
	<hr/>	<hr/>
Total	120,000	94,000
	<hr/>	<hr/>

NICOCIGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. 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.

Key management personnel (including directors) received remuneration of £646,276 (2015 - £127,056). Employer contributions to defined contribution pension plans for key management totalled £2,483 (2015 - £Nil).

During the year, the company incurred net digital marketing costs of £198,631 (2015 - £500,000) from SEO Plugged Limited, a company which N Nathwani, a former director of the company controls. At the year end, £Nil (2015 - £500,000) was owed to SEO Plugged Limited.

During 2015, 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.

25. Post balance sheet events

From July 2017 the company has distributed electronic cigarettes through its fellow group company, Philip Morris Limited, rather than directly trading with customers.

26. Immediate and ultimate parent undertakings and controlling party

The immediate parent undertaking is Philip Morris 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 financial statements are prepared is Philip Morris International Inc. Copies of the group financial statements are available to the public on Philip Morris International Inc.'s website.