



HUNTERS & FRANKAU LIMITED

**Annual Report
31 December 2015**

Annual Report for the year end 31 December 2015

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Annual Report for the year end 31 December 2015**Strategic report**

Review of the business

The group is engaged in importing and distributing cigars and allied products.

The results for 2015 showed encouraging growth in sales of Premium Havana Cigars whilst sales of European manufactured cigars were satisfactory.

The directors consider the results for the year and the financial position at 31 December 2015 to be satisfactory. The directors believe that the group remains in a strong position in its sectors of the market.

Risks and uncertainty

The group is exposed to a variety of financial risks and business risks.

Financial risk

Financial risk includes liquidity, credit, currency and interest rate risks.

The directors have not delegated the responsibility of maintaining financial risk management to a sub-committee. The policies set by the directors are implemented by the group's finance department.

The group seeks to manage liquidity risk by ensuring that sufficient liquidity is available from the group's own cash resources and agreed bank facilities to meet its foreseeable needs.

The group's principal financial assets are cash and trade debtors. The principal credit risk arises therefore from its trade debtors. The group maintains policies and procedures to manage credit risk.

The group is exposed to foreign exchange risk. Transaction exposures are regularly forecast and reviewed in order to mitigate currency risk. The group manages risk through its strategic stock position.

The group's financial instruments comprise amounts receivable from customers, amounts payable to suppliers and bank overdraft facilities. Bank borrowings incur interest at variable market rates. Interest rate risk is not considered material.

Business risks

Business risks include market, economic, climatic and other events and regulatory risk which are monitored and managed by the Board.

The group seeks to maintain its market presence and balance through its broad brand portfolio and diverse customer base.

Demand for the group's products is sensitive to prevailing economic conditions but the company seeks to mitigate this by offering products at a wide range of price points.

The group manages the risk of disruption through climatic and other events by maintaining a strategic stock position.

The group's principal business of cigar distribution is subject to extensive government regulatory restrictions. The directors have put policies in place to ensure that existing restrictions are adhered to and seek to engage with government and its agents when new regulation is being considered.

Annual Report for the year end 31 December 2015

Strategic report (continued)

Key performance indicators

In managing the business the directors monitor the results against the budget and the previous year through monthly management reports and snapshots of the trading results following each period end.

The key performance indicators for the year to 31 December 2015 were:

	2015	2014
Sales growth %	5.9%	4.8%
Gross margin%	38.2%	37.3%
Operating profit%	21.6%	20.7%

Demand for Premium Habanos Cigars remained strong 2015 despite the extension of the display ban to small retail premises in April 2015. Demand was lifted by good availability of attractive new limited edition and regional edition Habanos products during 2015 including the company's 225th Anniversary Ramon Allones Cigar which had been aged for two years.

The directors are focusing on the transition to new tobacco product labelling regulations in 2016/17 following the UK Government implementation of EU Tobacco Product Directive 2. This is expected to result in lost sales due to product rationalisation by manufacturers and significantly increased packaging and labour costs from the third quarter of 2016.

This report was approved by the Board on 11 February 2016 and signed on its behalf by:



P J HAMBIDGE
Director

Annual Report for the year end 31 December 2015**Directors' report**

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

Results and dividends

The results for the year ended 31 December 2015 are shown in the consolidated profit and loss account on page 7. The group profit for the year after taxation was £4,251,638 (2014: £4,066,954).

A final dividend for 2014 of 73.7463p per ordinary share was paid on 24 June 2015.

An interim dividend of 221.2390p per ordinary share was paid on 5 November 2015 in respect of the year.

The directors are recommending the payment of a final dividend for the year of 73.7463p per ordinary share.

Directors

The directors who served during the year were:

Executive

D G Lewis (Chairman)
Miss J K N Freeman (Managing)
P J Hambidge (Finance)
S G M Croley (Sales and Marketing)
Y Bulnes Lopez (Corporate) (appointed 16 April 2015)

Non-executive

F J Terres de Ercilla
S G Chase
J L Fernandez Maique (resigned 20 October 2015)

Directors' responsibilities

The directors are responsible for preparing the strategic report, 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the group and of the profit or loss of the group for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy, at any time, the financial position of the group to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

No material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern have been identified by the directors.

Future developments

There are a number of capital projects planned for 2016 to improve facilities at existing sites. The directors aim to maintain the management policies which have resulted in the group's growth in recent years.

Annual Report for the year end 31 December 2015

Directors' report (continued)

Events since the end of the financial year

There were no events to report after the year end.

Donations

Charitable donations during the year amounted to £7,500 (2014; £7,500).

Auditor

Moore Stephens LLP were appointed auditor of the group following their merger with Chantrey Vellacott DFK LLP with effect from 1 May 2015 and will be re-appointed in accordance with Chapter 2 of part 16 of the Companies Act 2006.

Each director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the group's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Signed on behalf of the board of directors

A handwritten signature in black ink, appearing to be 'P J Hambidge', is written over a horizontal line.

P J HAMBIDGE
Secretary

Date: 11 February 2016

Annual Report for the year end 31 December 2015**Independent auditor's report to the shareholders of Hunters & Frankau Limited**

We have audited the financial statements of Hunters & Frankau Limited for the year ended 31 December 2015 which comprise the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors responsibilities statement, 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 Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

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

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Ian Staunton FCA (Senior Statutory Auditor)

For and on behalf of
Moore Stephens LLP
Chartered Accountants & Statutory Auditor
150 Aldersgate
London
United Kingdom
EC1A 4AB

11 February 2016

Annual Report for the year end 31 December 2015

Consolidated profit and loss account

	Note	2015 £	2014 £
Revenue	2	26,674,273	25,191,077
Cost of sales		<u>16,471,806</u>	<u>15,798,662</u>
Gross profit		10,202,467	9,392,415
Distribution costs		<u>2,122,470</u>	2,041,971
Other operating expenses		<u>2,306,788</u>	<u>2,143,566</u>
		4,429,258	4,185,537
Operating profit		5,773,209	5,206,878
Net finance (costs)/income	3	<u>(48,678)</u>	<u>1,660</u>
Profit on ordinary activities before taxation	4	5,724,531	5,208,538
Tax on profit on ordinary activities	7	<u>1,202,893</u>	<u>1,141,584</u>
Profit for the financial year		<u>4,521,638</u>	<u>4,066,954</u>

The notes on pages 14 to 32 form part of these financial statements.

Annual Report for the year end 31 December 2015

Consolidated statement of comprehensive income

	Note	2015 £	2014 £
Profit for the financial year		4,521,638	4,066,954
Actuarial gains/(losses) on post-employment benefit obligations		923,000	(2,432,000)
Difference between the expected and actual returns on pension scheme assets		(366,000)	388,000
Other comprehensive income/(expense) for the year before tax		557,000	(2,044,000)
Total tax relating to components of other comprehensive income/(expense)	7	(106,000)	408,800
Total comprehensive income for the year		4,972,638	2,431,754

There were no items of other comprehensive income relating to discontinued operations in the period.

There is no difference between the profits shown above and their historical cost equivalents.

The notes on pages 14 to 32 form part of these financial statements.


Annual Report for the year end 31 December 2015

Consolidated statement of financial position

	Note	2015 £	2014 £
Fixed assets			
Tangible assets	9	809,171	754,670
		<u>809,171</u>	<u>754,670</u>
Current assets			
Stocks	11	7,797,817	7,982,590
Debtors	12	5,109,662	5,400,184
Cash at bank and in hand		2,279,611	1,254,812
		<u>15,187,090</u>	<u>14,637,586</u>
Creditors: amounts falling due within one year	13	<u>3,124,521</u>	<u>2,804,623</u>
Net current liabilities		<u>12,062,569</u>	<u>11,832,963</u>
Total assets less current liabilities		<u>12,871,740</u>	<u>12,587,633</u>
Provisions for liabilities			
Pension scheme deficit	17	(801,000)	(1,487,000)
Net assets		<u>12,070,740</u>	<u>11,100,633</u>
Capital and reserves			
Called up share capital	15	678,001	678,001
Share premium		1,250	1,250
Revaluation reserve		414,571	417,102
Profit and loss account		<u>10,976,918</u>	<u>10,004,280</u>
Shareholders' funds		<u>12,070,740</u>	<u>11,100,633</u>

These financial statements were approved by the board of directors and authorised for issue on 11 February 2016, and signed on behalf of the board by:


MISS J K N FREEMAN
Director


PJ HAMBIDGE
Director

Company registration number: 00022169

The notes on pages 14 to 32 form part of these financial statements.

Annual Report for the year end 31 December 2015

Consolidated statement of changes in equity

	Called up share capital £	Share premium £	Revaluation reserve £	Profit and loss account £	Total £
At 1 January 2014	678,001	1,250	419,633	10,572,526	11,671,410
Profit for the year	–	–	–	4,066,954	4,066,954
Other comprehensive income for the year:					
Actuarial losses on post-employment benefit obligations	–	–	–	(2,432,000)	(2,432,000)
Difference between the expected and actual returns on pension scheme assets	–	–	–	388,000	388,000
Tax on components of other comprehensive income	–	–	–	408,800	408,800
Excess depreciation on revaluation	–	–	(2,531)	–	(2,531)
Total comprehensive income for the year	–	–	(2,531)	2,431,754	2,429,223
Dividends	–	–	–	(3,000,000)	(3,000,000)
At 1 January 2015	678,001	1,250	417,102	10,004,280	11,100,633
Profit for the year	–	–	–	4,521,638	4,521,638
Other comprehensive income for the year:					
Actuarial gains on post-employment benefit obligations	–	–	–	923,000	923,000
Difference between the expected and actual returns on pension scheme assets	–	–	–	(366,000)	(366,000)
Tax on components of other comprehensive income	–	–	–	(106,000)	(106,000)
Excess depreciation on revaluation	–	–	(2,531)	–	(2,531)
Total comprehensive income for the year	–	–	(2,531)	4,972,638	4,970,107
Dividends	–	–	–	(4,000,000)	(4,000,000)
At 31 December 2015	678,001	1,250	414,571	10,976,918	12,070,740

The notes on pages 14 to 32 form part of these financial statements.

Annual Report for the year end 31 December 2015

Consolidated statement of cash flows

	2015 £	2014 £
Cash flows from operating activities		
Profit for the financial year	4,521,638	4,066,954
<i>Adjustments for:</i>		
Depreciation of tangible assets	78,353	75,100
Loss on sale of fixed assets	6,973	-
Net finance costs/(income)	48,678	(1,660)
Tax on profit on ordinary activities	1,202,893	1,141,584
Difference between pension service cost and cash contributions	(368,000)	(568,000)
<i>Changes in:</i>		
Stocks	184,773	604,695
Trade and other debtors	283,867	(441,968)
Trade and other creditors	328,648	(731,467)
Cash generated from operations	6,287,823	4,145,238
Interest received	6,322	5,660
Tax paid	(1,126,988)	(1,026,489)
Net cash from operating activities	5,167,157	3,124,409
Cash flows from investing activities		
Purchase of tangible assets	(144,793)	(25,109)
Proceeds from sale of tangible assets	2,435	-
Net cash used in investing activities	(142,358)	(25,109)
Cash flows from financing activities		
Dividends paid to company's shareholders	(4,000,000)	(3,000,000)
Net cash used in financing activities	(4,000,000)	(3,000,000)
Net increase in cash and cash equivalents	1,024,799	99,300
Cash and cash equivalents at beginning of year	1,254,812	1,155,512
Cash and cash equivalents at end of year	2,279,611	1,254,812

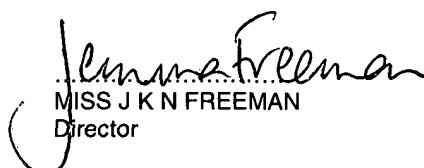
The notes on pages 14 to 32 form part of these financial statements.


Annual Report for the year end 31 December 2015

Company statement of financial position

	Note	2015 £	2014 £
Fixed assets			
Tangible assets	9	809,171	754,670
Investments	10	399,664	399,664
		<u>1,208,835</u>	<u>1,154,334</u>
Current assets			
Stocks	11	7,797,817	7,982,590
Debtors	12	5,109,482	5,400,004
Cash at bank and in hand		2,279,611	1,254,812
		<u>15,186,910</u>	<u>14,637,406</u>
Creditors: amounts falling due within one year	13	<u>3,804,314</u>	<u>3,484,416</u>
Net current assets		<u>11,382,596</u>	<u>11,152,990</u>
Total assets less current liabilities		<u>12,591,431</u>	<u>12,307,324</u>
Provisions			
Pension scheme deficit	17	(801,000)	(1,487,000)
		<u>11,790,431</u>	<u>10,820,324</u>
Net assets			
Capital and reserves			
Called up share capital	15	678,001	678,001
Share premium		1,250	1,250
Revaluation reserve		414,571	417,102
Profit and loss account		10,696,609	9,723,971
Shareholders funds		<u>11,790,431</u>	<u>10,820,324</u>

These financial statements were approved by the board of directors and authorised for issue on 11 February 2016, and are signed on behalf of the board by:


MISS J K N FREEMAN
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Annual Report for the year end 31 December 2015

Company statement of changes in equity

	Called up share capital £	Share premium £	Revaluation reserve £	Profit and loss account £	Total £
At 1 January 2014	678,001	1,250	419,633	10,292,217	11,391,101
Profit for the year	–	–	–	4,066,954	4,066,954
Other comprehensive income for the year:					
Actuarial losses on post-employment benefit obligations	–	–	–	(2,432,000)	(2,432,000)
Difference between the expected and actual returns on pension scheme assets	–	–	–	388,000	388,000
Tax on components of other comprehensive income	–	–	–	408,800	408,800
Excess depreciation on revaluation	–	–	(2,531)	–	(2,531)
Total comprehensive income for the year	–	–	(2,531)	2,431,754	2,429,223
Dividends	–	–	–	(3,000,000)	(3,000,000)
At 1 January 2015	678,001	1,250	417,102	9,723,971	10,820,324
Profit for the year	–	–	–	4,521,638	4,521,638
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Actuarial gains on post-employment benefit obligations	–	–	–	923,000	923,000
Difference between the expected and actual returns on pension scheme assets	–	–	–	(366,000)	(366,000)
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Excess depreciation on revaluation	–	–	(2,531)	–	(2,531)
Total comprehensive income for the year	–	–	(2,531)	4,972,638	4,970,107
Dividends	–	–	–	(4,000,000)	(4,000,000)
At 31 December 2015	678,001	1,250	414,571	10,696,609	11,790,431

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Annual Report for the year end 31 December 2015

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<i>Changes in:</i>		
Stocks	184,773	604,695
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The notes on pages 14 to 32 form part of these financial statements.

Annual Report for the year end 31 December 2015**Notes to the financial statements**

1. Accounting policies**a) Statement of compliance**

These consolidated financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

These financial statements are presented in Pounds Sterling (GBP), as that is the currency in which the majority of the group's transactions are denominated. They comprise the financial statements of the company and its subsidiaries drawn up for the year ended 31 December 2015.

The continuing activities of Hunters & Frankau Limited are importing and distributing cigars and allied products. Its subsidiaries are dormant.

The company is a United Kingdom company limited by shares. It is both incorporated and domiciled in England and Wales. The address of its registered office is 16–19 Hurlingham Business Park, Sullivan Road, London, SW6 3DU.

b) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation

Before 2015 the financial statements were prepared in accordance with UK GAAP applicable prior to the adoption of FRS 102, as issued by the Financial Reporting Council, and referred to below as 'previous UK GAAP'. The group transitioned from previous UK GAAP to FRS 102 as at 1 January 2014. Details of how FRS 102 has affected the reported financial position and financial performance are set out in note 20.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value. The principal accounting policies that have been applied to all periods presented in these financial statements are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1c. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for Hunters & Frankau Limited is not presented.

Consolidation

The consolidated financial statements comprise those of the company and its subsidiaries. Subsidiaries which are directly or indirectly controlled by the group are consolidated. Control is achieved where the company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities, which generally accompanies a shareholding of more than one half of the voting rights.

The acquisition method of accounting is used by the group when it undertakes a business combination. The fair value of consideration transferred at the acquisition date includes the fair value of assets transferred, liabilities incurred by the owners and equity instruments issued by the group. Consideration can include cash, contingent consideration and options. The assets acquired and liabilities assumed are recognised at the acquisition date at their fair value. At the acquisition date any equity interest held prior to the acquisition date is recognised as consideration at its fair value as at the time of the original transaction.

Goodwill is measured as the excess of the consideration transferred over the group's share of the fair value of the assets acquired and liabilities assumed.

Annual Report for the year end 31 December 2015**Notes to the financial statements (continued)**

Consolidation (continued)

Prior to 31 December 1997, the group eliminated purchased goodwill by immediate write off to reserves on acquisition. This will be credited to the profit and loss account on disposal of the subsidiary. The cumulative amount of goodwill written off to the group profit and loss account in prior years is £766,200.

The consolidated financial statements are based on the financial statements of the individual companies drawn up using the standard group accounting policies. Accounting policies applied by individual subsidiaries are consistent with group policies for consolidation purposes. All companies in the group have the same reporting date of 31 December.

All significant intra-group transactions and balances between group entities are eliminated on consolidation.

Foreign currency translation

The group has determined that the GBP is its functional currency, as this is the currency of the economic environment in which the group predominantly operates.

Transactions in currencies other than GBP are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. The group does not operate in any hyper-inflationary economies.

Revenue recognition

Turnover represents revenue due from the normal activities of the business to the extent that the group obtains a right to consideration in exchange for its performance of those activities, exclusive of VAT.

Taxation

The tax expense represents the sum of current tax and deferred tax.

The charge for current tax is based on the results for the year adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Current and deferred tax is recognised in the same component of the profit and loss account, other comprehensive income or equity as the transaction or event that resulted in the tax expense or income.

Deferred tax is the tax expected to be payable or recoverable on timing differences between taxable profits and the total comprehensive income as reported in the financial statements.

Deferred tax liabilities are recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits will be available against which timing differences can be utilised. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the total comprehensive income.

Deferred tax liabilities are recognised for timing differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that have been enacted, or substantively enacted by the reporting date, and are expected to apply in the period when the liability is settled or the asset realised. For land deferred tax is calculated on the presumption that recovery is through sale.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

Taxation (continued)

A change in deferred tax assets and liabilities as a result of a change in the tax rates or laws is recognised in profit and loss, or other comprehensive income to the extent that it relates to items previously recognised in other comprehensive income.

Deferred tax assets and liabilities are offset when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxation arising in respect of the pension deficit is treated as a reduction in the deficit.

Tangible fixed assets

Under previous UK GAAP, the group adopted a policy of revaluing certain tangible fixed assets.

As permitted by FRS 102, the group has elected to adopt a 'deemed cost' value for freehold property at the date of transition. This reflects what the directors consider to be the fair value of the property at the date of transition (1 January 2014).

The group will no longer apply the revaluation policy to any tangible fixed assets under FRS 102. On transition the revaluation reserve remains in accordance with the Companies Act 2006.

Excess depreciation arising on the revalued portion of the freehold property is charged against the revaluation reserve. On a subsequent sale of the freehold property, the attributable surplus remaining in the revaluation reserve is transferred directly to the profit and loss reserve.

Tangible fixed assets are stated at historical and deemed 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.

Land is not depreciated as it is deemed to have an indefinite useful life. Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

Freehold buildings	2%
Short leasehold improvements	15%
Plant, equipment, fixtures and fittings	15 – 25%
Motor vehicles	25%

Impairment of non-financial assets

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

Financial assets and liabilities*General*

Financial instruments are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are measured as set out below. A financing transaction is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Classification

Financial instruments are classified as either 'basic' or 'other' in accordance with Section 11 of FRS 102.

Subsequent measurement

At the end of each reporting period, debt instruments classified as basic are measured at amortised cost using the effective interest rate method.

Investments in preference and ordinary shares classified as basic financial instruments, and all financial instruments not classified as basic are measured at fair value at the end of the reporting period, with the resulting changes recognised in profit or loss. Where their fair value cannot be reliably measured, they are recognised at cost less impairment.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Impairment of financial assets*Assets carried at cost or amortised cost*

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- i Significant financial difficulty of the issuer or obligor;
- ii A breach of contract, such as a default or delinquency in interest or principal payments;
- iii The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- iv It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- vi Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (a) Adverse changes in the payment status of borrowers in the portfolio; and
 - (b) National or local economic conditions that correlate with defaults on the assets in the portfolio.

As an initial step the group assesses whether objective evidence of impairment exists.

Annual Report for the year end 31 December 2015**Notes to the financial statements (continued)**

Impairment of financial assets (continued)

The amount of the loss is measured, in the case of assets measured at amortised cost, as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced to the present value of estimate future cash flows and the amount of the loss is recognised in the consolidated income statement. Where the investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In the case of financial assets measured at cost, the impairment loss will be the difference between the asset's carrying amount and the best estimate of the sales price that would be achieved at the reporting date

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit and loss account.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is the actual purchase cost including, where appropriate, inwards carriage and excise duty. Selling price is the price at which the stock can be realised in the normal course of business. Provision is made for slow moving stocks.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade debtors are recognised at the undiscounted amount of cash receivable, which is normally the invoice price, less any allowances for doubtful debts.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares in relation to ordinary shares are shown in equity as a deduction, net of taxation, from the proceeds.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as creditors falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors falling due after one year.

Trade creditors are recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

Annual Report for the year end 31 December 2015**Notes to the financial statements (continued)**

Employee benefits

The group operates a defined benefit pension scheme providing benefits based on final pensionable pay ("the Scheme") and also contributes to individual employees' stakeholder pension plans and self-invested personal pensions (SIPPS). The Scheme is funded, with the assets of the Scheme held separately from those of the group, in separate trustee administered funds.

The Scheme includes a participating employer outside the group. The estimated proportion of Scheme assets and liabilities attributable to the other employer is not material to the group and therefore the group has included the whole of the Scheme liabilities.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date by an independent actuary. Actuarial gains and losses arising from experience adjustments and changes in assumptions are recognised immediately in other comprehensive income. All costs related to the defined benefit plan are recognised in the profit and loss account within employee benefit costs.

Contributions to stakeholder pension plans and SIPPS are charged to the profit and loss account as they become payable. The group has no further obligations in respect of stakeholder pension plans and SIPPS.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets, net of deferred tax. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all of the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate that the group will be required to settle that obligation and the expenditure required.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

c) Critical accounting estimates and judgements

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Critical accounting estimates and assumptions*Defined benefit pension and other post-employment benefits*

The present value of the defined benefit pension and other post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pension and other post-employment benefits include the discount rate. Any changes in these assumptions will have an effect on the carrying amount of pension and other post-employment benefits.

After taking appropriate professional advice, group management determines the appropriate discount rate at the end of each reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, consideration is given to the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are to be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions relevant to the defined benefit pension and other post-employment benefit obligations are based in part on current market conditions. Additional disclosures concerning these obligations are given in note 17.

Depreciation and residual values

The directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that the asset lives and residual values are appropriate.

d) Financial risk management

The group has exposures to three main areas of risk - foreign exchange currency exposure, liquidity risk and customer credit exposure.

Foreign exchange transactional currency exposure

The group is exposed to currency exchange rate risk due to a significant proportion of its trade payables being denominated in non-Sterling currencies. The net exposure of each currency is monitored and managed by the regular forecast and review of transition exposures along with the group's strategic stock position.

Liquidity risk

The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cash flows. In the event that the operating cash flows would not cover all the financial obligations the group has credit facilities available.

Customer credit exposure

The group may offer credit terms to its customers which allow payment of the debt after delivery of the goods or services. The group is at risk to the extent that a customer may be unable to pay the debt on the specified due date. This risk is managed and mitigated by the policies and procedures in place and the strong on-going customer relationships.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

2. Turnover

Turnover arises from:

	2015 £	2014 £
United Kingdom	25,632,720	24,470,426
Rest of Europe	1,041,553	720,651
	<u>26,674,273</u>	<u>25,191,077</u>

3. Net finance (costs)/income

	2015 £	2014 £
Bank interest receivable	6,322	5,660
Net interest on pension scheme deficit	(55,000)	(4,000)
	<u>(48,678)</u>	<u>1,660</u>

4. Operating profit

Operating profit or loss is stated after charging:

	2015 £	2014 £
Depreciation	78,353	75,100
Auditor's remuneration:		
- audit services	30,750	30,000
- taxation services	3,150	2,800
- other services	12,375	6,795
Property rentals	167,800	167,895
and after crediting:		
Loss on disposal of tangible fixed assets	<u>6,973</u>	<u>—</u>

Excess depreciation of £2,531 (2014: £2,531) arising on the revalued portion of the freehold property is charged against the revaluation reserve.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

5. Staff costs

The staff costs for the year, including the directors, amounted to:

	2015 £	2014 £
Wages and salaries	2,430,684	2,325,220
Social security costs	286,549	273,384
Pension costs		
- Service cost	235,000	221,000
- Other	74,471	68,344
	<u>3,026,704</u>	<u>2,887,948</u>

The weekly average number of persons employed by the group during the year, excluding the directors, was as follows:

	2015	2014
Warehousing and distribution	31	31
Office and management	14	14
	<u>45</u>	<u>45</u>

6. Directors remuneration

(a) The directors aggregate remuneration in respect of qualifying services was:

	2015 £	2014 £
Fees and management remuneration	881,876	857,450
Company contributions to money purchase pension plans	12,798	17,317
	<u>894,674</u>	<u>874,767</u>

(b) Highest paid director:

	2015 £	2014 £
Fees and management remuneration	<u>275,392</u>	<u>258,623</u>

Two directors benefited from contributions to the group's defined benefit pension scheme (2014: two).

Three directors benefited from contributions to money purchase pension schemes (2014: three).

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

7. Tax on profit on ordinary activities

(a) Tax expense included in profit and loss account

	2015 £	2014 £
Current tax:		
UK current tax expense	1,118,238	1,022,911
Total current tax	<u>1,118,238</u>	<u>1,022,911</u>
Deferred tax:		
Origination and reversal of timing differences	84,655	118,673
Tax on profit on ordinary activities	<u>1,202,893</u>	<u>1,141,584</u>

(b) Tax expense/(income) included in other comprehensive income

	2015 £	2014 £
Deferred tax:		
Origination and reversal of timing differences	106,000	(408,800)
Total tax expense/(income) included in other comprehensive income	<u>106,000</u>	<u>(408,800)</u>

(c) Reconciliation of tax expense

The tax assessed for the year is higher than (2014: higher than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%). The differences are explained below:

	2015 £	2014 £
Profit on ordinary activities before taxation	5,724,531	5,464,538
Profit on ordinary activities multiplied by rate of tax	1,159,218	1,119,836
Adjustment to tax charge in respect of prior periods	(39,911)	(25,462)
Effect of expenses not deductible for tax purposes	68,969	47,924
Re-measurement of deferred tax – change in tax rate	14,617	(714)
Tax on profit on ordinary activities	<u>1,202,893</u>	<u>1,141,584</u>

8. Dividends

	2015 £	2014 £
On the 'A' and 'B' ordinary shares:		
First interim paid for year	3,000,000	2,000,000
Final paid for prior year	1,000,000	1,000,000
	<u>4,000,000</u>	<u>3,000,000</u>

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

9. Tangible fixed assets
Group and company

	Freehold property £	Short leasehold improvements £	Plant, equipment, fixtures and fittings £	Motor vehicles £	Total £
Cost:					
At 1 January 2015	675,000	290,360	801,581	334,622	2,101,563
Additions	-	-	51,015	93,778	144,793
Disposals	-	-	(21,568)	(89,429)	(110,997)
At 31 December 2015	675,000	290,360	831,028	338,971	2,135,359
Depreciation:					
At 1 January 2015	13,500	287,389	766,392	279,612	1,346,893
Provision for year	13,500	810	27,525	39,049	80,884
Disposals	-	-	(21,297)	(80,292)	(101,589)
At 31 December 2015	27,000	288,199	772,620	238,369	1,326,188
Net book value:					
At 31 December 2015	648,000	2,161	58,408	100,602	809,171
At 31 December 2014	661,500	2,971	35,189	55,010	754,670

In respect of freehold property stated at valuation, the comparable historical cost and depreciation values are as follows:

	2015 £	2014 £
Net book value at end of year	648,000	661,500
Historical cost	548,434	548,434
Depreciation:		
At 1 January	304,036	293,067
At 31 December	315,005	304,036
Net historical cost value	233,429	244,398

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

10. Investments - company

Shares in subsidiary undertakings:	£
Cost:	
At 1 January 2015 and 31 December 2015	4,120,713
Provisions:	
At 1 January 2015 and 31 December 2015	3,721,049
Net book value:	
At 31 December 2014 and 31 December 2015	399,664

At 31 December 2015, the company's direct wholly owned subsidiary undertakings were Joseph Samuel & Son Limited and Knight Brothers Cigar Shippers Limited, registered in England and dormant.

The company also owns indirectly, the entire issued share capital of the following subsidiary undertakings which are registered in England and are dormant:

Morris & Morris Limited
 Melbourne Hart & Co. Limited
 Tabaco Torcido Traders Limited
 Lancha House Limited
 Incentive Marketing Services (UK) Limited
 Tropic Tobacco Co Limited
 Melbourne Hart Holdings Limited
 Jacon Financial Services Limited
 C H Downton Limited
 F J Downton Limited
 English Import Co. Limited

11. Stocks

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Goods purchased for resale	7,797,817	7,982,590	7,797,817	7,982,590

12. Debtors

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Amounts due within one year:				
Trade debtors	4,847,660	5,124,274	4,847,660	5,124,274
Other debtors	83,809	123,124	83,629	122,944
Prepayments and accrued income	172,958	140,896	172,958	140,896
	5,104,427	5,388,294	5,104,247	5,388,114
Amounts due after more than one year:				
Deferred tax (note 14)	5,235	11,890	5,235	11,890
	5,109,662	5,400,184	5,109,482	5,400,004

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

13. Creditors

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Amount owed to subsidiary undertaking	—	—	681,382	681,382
Trade creditors	838,496	670,002	838,496	670,002
Corporation tax	546,885	555,635	546,885	555,635
Other taxes, duties and social security costs	1,105,731	1,034,915	1,105,731	1,034,915
Other creditors and accruals	633,409	544,071	631,820	542,482
	<u>3,124,521</u>	<u>2,804,623</u>	<u>3,804,314</u>	<u>3,484,416</u>

14. Deferred taxation

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Capital allowances	(5,235)	(11,890)	(5,235)	(11,890)
Deferred tax asset	<u>(5,235)</u>	<u>(11,890)</u>	<u>(5,235)</u>	<u>(11,890)</u>

The provision for deferred taxation has been calculated based on a corporation tax rate of 19% (2014 : 20.0%).

The movement during the year is analysed as follows:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Balance at 1 January 2015	(11,890)	(13,763)	(11,890)	(13,763)
Charge for the year	6,655	1,873	6,655	1,873
Balance at 31 December 2015	<u>(5,235)</u>	<u>(11,890)</u>	<u>(5,235)</u>	<u>(11,890)</u>

Details of the deferred tax asset arising on the pension deficit are given in note 17.

15. Share capital

	Authorised, allotted and fully paid	
	2015	2014
	£	£
678,000 ordinary 'A' shares of 50p each	339,000	339,000
678,000 ordinary 'B' shares of 50p each	339,000	339,000
1 ordinary 'C' share of 50p	1	1
	<u>678,001</u>	<u>678,001</u>

The 'C' share does not carry any voting rights or rights to receive dividends, but otherwise carries equal rights to the 'A' and 'B' shares.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

16. Lease commitments

	Group 2015 £	2014 £	Company 2015 £	2014 £
Annual property rentals payable under leases which expire:				
Within one year	10,400	–	10,400	–
Between one and five years	311,836	451,836	311,836	451,836
Balance at 31 December 2015	322,236	451,836	322,236	451,836

17. Pension commitments – group and company

The group operates a defined benefit pension scheme providing benefits based on final pensionable pay ("the Scheme") and also contributes to individual employees' stakeholder pension plans and self-invested personal pensions (SIPPS).

Defined benefit pension plan:

A full actuarial valuation was carried out at 31 December 2012 by a qualified actuary, independent of the Scheme's principal participating employer.

Employer contributions in 2015 were paid at the rate of 22.5% of pensionable salary plus a £400,000 deficit repair contribution. In 2016, employer contributions are expected to be £590,000.

Pension benefits depend upon age, length of service and salary level.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

	2015 £'000s	2014 £'000s
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	21,022	19,629
Current service cost	235	221
Interest cost	722	841
Actuarial (gains)/losses	(908)	2,432
Benefits paid	(995)	(2,101)
At the end of the year	20,076	21,022

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

17. Pension commitments – group and company (continued)

	2015 £'000s	2014 £'000s
<i>Reconciliation of fair value of plan assets</i>		
At the beginning of the year	19,163	19,250
Interest income on plan assets	667	837
Actuarial (losses)/gains	(351)	388
Contributions by employer	603	789
Benefits paid	(995)	(2,101)
At the end of the year	19,087	19,163
Fair value of plan assets	19,087	19,163
Present value of plan liabilities	(20,076)	(21,022)
Deficit in scheme	(989)	(1,859)
Deferred taxation	188	372
Pension scheme deficit recognised	(801)	(1,487)
<i>Amounts recognised in the profit and loss amount are as follows:</i>		
Current service cost	235	221
Net interest cost	55	4
	290	225
<i>Analysis of actuarial gain/(loss) recognised in other comprehensive income</i>		
Actual return less interest income included in net interest income	(351)	388
Experience gains and losses arising on the scheme liabilities	(15)	(337)
Changes in assumptions underlying the present value of the scheme liabilities	923	(2,095)
	557	(2,044)

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

17. Pension commitments – group and company (continued)

	2015 £'000s	2014 £'000s
<i>Composition of plan assets</i>		
Equity/property	11,896	12,349
Bonds	4,429	5,754
Cash and other	2,762	1,060
	<hr/>	<hr/>
Total plan assets	19,087	19,163
	<hr/>	<hr/>
<i>Actual return on plan assets</i>	316	1,225
	<hr/>	<hr/>

None of the fair values of the assets shown above includes any of the group's own financial instruments or any property occupied by, or other assets used by, the group.

	2015 %	2014 %
<i>Principal actuarial assumptions used at the balance sheet date</i>		
Discount rates	3.80%	3.50%
Future pension in payment increases	2.90%	2.85%
Future deferred pension increases	2.00%	1.95%
Inflation assumption (RPI)	3.00%	2.95%
Inflation assumption (CPI)	2.00%	1.95%
Mortality rates		
- for a male aged 65 now	22.0 Years	22.0 Years
- at 65 for a male member aged 45 now	23.4 Years	23.3 Years
- for female aged 65 now	24.3 Years	24.2 Years
- at 65 for a female member aged 45 now	25.8 Years	25.7 Years

Defined contribution scheme:

The amount recognised in the profit and loss account as an expense in relation to the group's defined contribution schemes is £74,471 (2014: £68,344). There were no amounts owing at the year end.

Annual Report for the year end 31 December 2015**Notes to the financial statements (continued)**

18. Transactions with directors and other related party transactions

During the year the group entered into transactions in the ordinary course of business and under normal trading conditions, with related parties.

Simon Chase Limited, a company controlled by Mr S G Chase provides marketing and regulatory consultancy services to the group. During the year Simon Chase Limited invoiced the group £98,431 (2014: £79,556). At 31 December 2015 £8,280 (2014: £4,140) was owed by the group to Simon Chase Limited.

The group occupies offices and warehouses in South West London under a 20 year lease dated 30 October 1998 from Reyker Properties Limited, a company in which Miss J K N Freeman is a shareholder and director. The rent payable under the lease is determined by an independent qualified surveyor through rent reviews at 4 year intervals. The rent paid in the year ended 31 December 2015 was £140,000 (2014: £140,000).

The group paid fees for directors and management services to Altabana S.L. a company which has a 49.99% interest in the issued share capital of Hunters & Frankau Limited. Fees paid to Altabana S.L. in the year ended 31 December 2015 totalled £105,000 (2014: £105,000).

The group paid fees for management services to Hunters & Frankau Group Limited, a company which has a 50.01% interest in the issued share capital of Hunters & Frankau Limited. Fees paid to Hunters & Frankau Group Limited in the year ended 31 December 2015 totalled £97,500 (2014: £97,500). Miss J K N Freeman, Mr D G Lewis and Mr P J Hambidge are directors and shareholders of Hunters & Frankau Group Limited.

19. Controlling party

The company's immediate parent undertaking is J Frankau & Company Limited and its ultimate parent undertaking is Hunters & Frankau Group Limited, which are companies registered in England. The company's financial statements are consolidated in those of its ultimate parent.

In the opinion of the directors, the ultimate controlling party is the Nicholas Freeman Business Trust, constituted under English Law.

20. Transition to FRS 102

These financial statements for the year ended 31 December 2015 are the group's first financial statements that comply with FRS 102. The group's date of transition to FRS 102 was 1 January 2014. The group's last financial statements prepared in accordance with previous UK GAAP were for the year ended 31 December 2014.

The transition to FRS 102 has resulted in a number of changes in the group's accounting policies compared to those used when applying previous UK GAAP.

The following explanatory notes to the financial statements describe the differences between the equity and profit or loss presented under previous UK GAAP and the newly presented amounts under FRS 102 for the reporting period ended at 31 December 2014 (ie comparative information), as well as the equity presented in the opening statement of financial position (ie at 1 January 2014). It also describes the changes in accounting policies made on first-time adoption of FRS 102.

Tangible fixed assets

Under previous UK GAAP, the group adopted a policy of revaluing certain tangible fixed assets.

As permitted by FRS 102, the group has elected to adopt a 'deemed cost' value for the freehold property at the date of transition. This reflects what the directors consider to be the fair value of the property at the date of transition (1 January 2014).

The group will no longer apply the revaluation policy to any tangible fixed assets under FRS 102.

Annual Report for the year end 31 December 2015

Notes to the financial statements (continued)

20. Transition to FRS 102 (continued)

Employee benefits

FRS 102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 December 2014 because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets be they equities, properties or bonds. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported profit is mirrored by an increase in actuarial gains which are presented within other comprehensive income.

In the table below equity determined in accordance with the FRS 102 is reconciled to equity determined in accordance with previous UK GAAP at both 1 January 2014 (the date of transition to FRS 102) and 31 December 2014.

Reconciliation of equity:

	1 January 2014			31 December 2014		
	Previous UK GAAP	Effect of transition	FRS 102	Previous UK GAAP restated	Effect of transition	FRS 102
	£	£	£	£	£	£
Tangible assets	387,559	419,633	807,192	768,170	(13,500)	754,670
Stocks	8,587,285	-	8,587,285	7,982,590	-	7,982,590
Debtors	4,960,089	-	4,960,089	5,400,184	-	5,400,184
Cash	1,155,512	-	1,155,512	1,254,812	-	1,254,812
Total assets	15,090,445	419,633	15,510,078	15,405,756	(13,500)	15,392,256
Creditors	(3,539,668)	-	(3,539,668)	(2,804,623)	-	(2,804,623)
Provisions for liabilities	(299,000)	-	(299,000)	(1,487,000)	-	(1,487,000)
Total liabilities	(3,838,668)	-	(3,838,668)	(4,291,623)	-	(4,291,623)
Issued capital	678,001	-	678,001	678,001	-	678,001
Share premium	1,250	-	1,250	1,250	-	1,250
Revaluation reserve	-	419,633	419,633	430,602	(13,500)	417,102
Profit and loss account	10,572,526	-	10,572,526	10,004,280	-	10,004,280
Total equity	11,251,777	419,633	11,671,410	11,114,133	(13,500)	11,100,633

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Notes to the financial statements (continued)

20. Transition to FRS 102 (continued)

Reconciliation of consolidated profit or loss for the year ended 31 December 2014:

	Previous UK GAAP	Effect of transition	FRS 102
	£	£	£
Net sales	25,191,077	-	25,191,077
Cost of sales	(15,798,662)	-	(15,798,662)
Gross profit	9,392,415	-	9,392,415
Distribution costs	(2,041,971)	-	(2,041,971)
Other operating expenses	(2,143,566)	-	(2,143,566)
Interest payable and similar charges	257,660	(256,000)	1,660
Profit on ordinary activities before tax	5,464,538	(256,000)	5,208,538
Tax on profit on ordinary activities	(1,192,784)	51,200	(1,141,584)
Profit from ordinary activities after tax and profit for the financial year	4,271,754	(204,800)	4,066,954