

COMPANY REGISTRATION NUMBER: 00022169



HUNTERS & FRANKAU LIMITED

**Annual Report
31 December 2016**

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016**

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HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Strategic report**

Review of the business

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

The results for 2016 showed continuing 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 2016 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 group 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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****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.

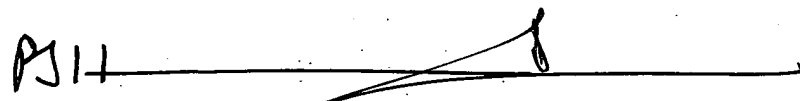
The key performance indicators for the year to 31 December 2016 were:

	2016	2015
Sales growth %	5.3%	5.9%
Gross margin%	39.2%	38.2%
Operating profit%	23.4%	21.6%

Demand for Premium Habanos Cigars remained strong in 2016. Sales were boosted by strong demand for premium speciality limited edition and regional edition Habanos products during 2016.

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 increased purchase, packaging and labour costs during 2017.

This report was approved by the Board on 17 February 2017 and signed on its behalf by:



P J HAMBIDGE
Director

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Directors' report**

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

Results and dividends

The results for the year ended 31 December 2016 are shown in the consolidated profit and loss account on page 7. The group profit for the year after taxation was £5,234,882 (2015: £4,521,638).

A final dividend for 2015 of 73.7463p per ordinary share was paid on 30 June 2016.

An interim dividend of 258.1121p per ordinary share was paid on 29 November 2016 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)
J K N Freeman (Managing)
P J Hambidge (Finance)
S G M Croley (Sales and Marketing)
Y Bulnes Lopez (Corporate)

Non-executive

F J Terres de Ercilla
S G Chase
L Cintra Gonzalez (appointed 14 April 2016)

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 over the ability of the group to continue as a going concern have been identified by the directors.

Future developments

The directors intend to maintain and further develop the management policies which have resulted in the group's growth in recent years.

HUNTERS & FRANKAU LIMITED

Annual Report for the year end 31 December 2016

Directors' report (continued)

Events since the end of the financial year

There were no events to report after the year end.


Auditor

Moore Stephens LLP has been re-appointed in accordance with section 487 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.

This report was approved by the Board on 17 February 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'PJH', followed by a long horizontal line that ends in a stylized flourish.

P J HAMBIDGE
Secretary

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****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 2016 which are set out on pages 7 to 29. 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), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 (APB'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 Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and parent company's affairs as at 31 December 2016 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, 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 group financial statements are prepared is consistent with the group financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

HUNTERS & FRANKAU LIMITED

Annual Report for the year end 31 December 2016

Independent auditor's report to the shareholders of Hunters & Frankau Limited

Matters on which we are required to report by exception

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



Joanne Allen, *Senior Statutory Auditor*

For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
United Kingdom
EC1A 4AB

17 February 2017

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Consolidated profit and loss account**

	Note	2016 £	2015 £
Revenue	4	28,080,577	26,674,273
Cost of sales		<u>17,081,557</u>	<u>16,471,806</u>
Gross profit		10,999,020	10,202,467
Distribution costs		2,150,016	2,122,470
Other operating expenses		<u>2,290,266</u>	<u>2,306,788</u>
		4,440,282	4,429,258
Operating profit	6	6,558,738	5,773,209
Net finance costs	5	<u>24,436</u>	<u>48,678</u>
Profit on ordinary activities before taxation		6,534,302	5,724,531
Tax on profit on ordinary activities	9	<u>1,299,420</u>	<u>1,202,893</u>
Profit for the financial year		<u>5,234,882</u>	<u>4,521,638</u>

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Consolidated statement of comprehensive income**

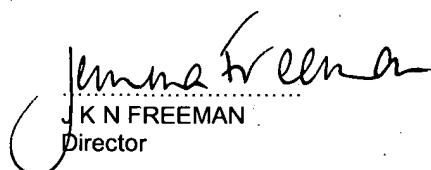
		2016	2015
	Note	£	£
Profit for the financial year		5,234,882	4,521,638
Actuarial (losses)/gains on post-employment benefit obligations		(4,452,000)	923,000
Difference between the expected and actual returns on pension scheme assets		3,120,000	(366,000)
Other comprehensive income for the year before tax		3,902,882	5,078,638
Total tax relating to components of other comprehensive income	9	240,000	(106,000)
Total comprehensive income for the year		4,142,882	4,972,638


The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Consolidated statement of financial position**

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	11	857,027	809,171
		<u>857,027</u>	<u>809,171</u>
Current assets			
Stocks	13	7,659,995	7,797,817
Debtors	14	6,025,992	5,297,662
Cash and cash equivalents		2,743,132	2,279,611
		<u>16,429,119</u>	<u>15,375,090</u>
Creditors: amounts falling due within one year	15	<u>3,625,524</u>	<u>3,124,521</u>
Net current assets		<u>12,803,595</u>	<u>12,250,569</u>
Total assets less current liabilities		<u>13,660,622</u>	<u>13,059,740</u>
Provisions for liabilities			
Pension scheme deficit	19	(1,947,000)	(989,000)
Net assets		<u>11,713,622</u>	<u>12,070,740</u>
Capital and reserves			
Share capital	17	678,001	678,001
Share premium		1,250	1,250
Revaluation reserve		412,040	414,571
Profit and loss account		10,622,331	10,976,918
Shareholders' funds		<u>11,713,622</u>	<u>12,070,740</u>

These financial statements were approved by the board of directors and authorised for issue on 17 February 2017, and signed on behalf of the board by:


J K N FREEMAN
Director


PJ HAMBIDGE
Director

Company registration number: 00022169

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Consolidated statement of changes in equity**

	Share capital £	Share premium £	Revaluation reserve £	Profit and loss account £	Total £
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 1 January 2016	678,001	1,250	414,571	10,976,918	12,070,740
Profit for the year	—	—	—	5,234,882	5,234,882
Other comprehensive income for the year:					
Actuarial losses on post-employment benefit obligations	—	—	—	(4,452,000)	(4,452,000)
Difference between the expected and actual returns on pension scheme assets	—	—	—	3,120,000	3,120,000
Tax on components of other comprehensive income	—	—	—	240,000	240,000
Excess depreciation on revaluation	—	—	(2,531)	2,531	—
Total comprehensive income for the year	—	—	(2,531)	4,145,413	4,142,882
Dividends	—	—	—	(4,500,000)	(4,500,000)
At 31 December 2016	678,001	1,250	412,040	10,622,331	11,713,622

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Consolidated statement of cash flows**

	2016 £	2015 £
Cash flows from operating activities		
Profit for the financial year	5,234,882	4,521,638
<i>Adjustments for:</i>		
Depreciation of tangible assets	96,669	78,353
(Profit)/loss on sale of fixed assets	(16,605)	6,973
Net finance costs	24,436	48,678
Tax on profit on ordinary activities	1,299,420	1,202,893
Difference between pension service cost and cash contributions	(402,000)	(368,000)
<i>Changes in:</i>		
Stocks	137,822	184,773
Trade and other debtors	(581,077)	283,867
Trade and other creditors	468,773	328,648
Cash generated from operations	6,262,320	6,287,823
Interest received	3,564	6,322
Tax paid	(1,174,443)	(1,126,988)
Net cash from operating activities	<u>5,091,441</u>	<u>5,167,157</u>
Cash flows from investing activities		
Purchase of tangible assets	(144,525)	(144,793)
Proceeds from sale of tangible assets	16,605	2,435
Net cash used in investing activities	<u>(127,920)</u>	<u>(142,358)</u>
Cash flows from financing activities		
Dividends paid to company's shareholders	(4,500,000)	(4,000,000)
Net cash used in financing activities	<u>(4,500,000)</u>	<u>(4,000,000)</u>
Net increase in cash and cash equivalents	463,521	1,024,799
Cash and cash equivalents at beginning of year	<u>2,279,611</u>	<u>1,254,812</u>
Cash and cash equivalents at end of year	<u>2,743,132</u>	<u>2,279,611</u>


The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Company statement of financial position**

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	11	857,027	809,171
Investments	12	399,664	399,664
		<u>1,256,691</u>	<u>1,208,835</u>
Current assets			
Stocks	13	7,659,995	7,797,817
Debtors	14	6,025,811	5,297,482
Cash and cash equivalents		2,743,132	2,279,611
		<u>16,428,938</u>	<u>15,374,910</u>
Creditors: amounts falling due within one year	15	4,305,316	3,804,314
Net current assets		<u>12,123,622</u>	<u>11,570,596</u>
Total assets less current liabilities		<u>13,380,313</u>	<u>12,779,431</u>
Provisions for liabilities			
Pension scheme deficit	19	(1,947,000)	(989,000)
Net assets		<u>11,433,313</u>	<u>11,790,431</u>
Capital and reserves			
Share capital	17	678,001	678,001
Share premium		1,250	1,250
Revaluation reserve		412,040	414,571
Profit and loss account		10,342,022	10,696,609
Shareholders funds		<u>11,433,313</u>	<u>11,790,431</u>

These financial statements were approved by the board of directors and authorised for issue on 17 February 2017, and are signed on behalf of the board by:


J K N FREEMAN
Director


P J HAMBIDGE
Director

Company registration number: 00022169

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Company statement of changes in equity**

	Share capital £	Share premium £	Revaluation reserve £	Profit and loss account £	Total £
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
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 1 January 2016	678,001	1,250	414,571	10,696,609	11,790,431
Profit for the year	—	—	—	5,234,882	5,234,882
Other comprehensive income for the year:					
Actuarial losses on post-employment benefit obligations	—	—	—	(4,452,000)	(4,452,000)
Difference between the expected and actual returns on pension scheme assets	—	—	—	3,120,000	3,120,000
Tax on components of other comprehensive income	—	—	—	240,000	240,000
Excess depreciation on revaluation	—	—	(2,531)	2,531	—
Total comprehensive income for the year	—	—	(2,531)	4,145,413	4,142,882
Dividends	—	—	—	(4,500,000)	(4,500,000)
At 31 December 2016	678,001	1,250	412,040	10,342,022	11,433,313

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Company statement of cash flows**

	2016 £	2015 £
Cash flows from operating activities		
Profit for the financial year	5,234,882	4,521,638
<i>Adjustments for:</i>		
Depreciation of tangible assets	96,669	78,353
(Profit)/loss on sale of fixed asset	(16,605)	6,973
Net finance costs	24,436	48,678
Tax on profit on ordinary activities	1,299,420	1,202,893
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Cash flows from financing activities		
Dividends paid to company's shareholders	(4,500,000)	(4,000,000)
Net cash used in financing activities	<u>(4,500,000)</u>	<u>(4,000,000)</u>
Net increase in cash and cash equivalents	463,521	1,024,799
Cash and cash equivalents at beginning of year	<u>2,279,611</u>	<u>1,254,812</u>
Cash and cash equivalents at end of year	<u>2,743,132</u>	<u>2,279,611</u>

The notes on pages 15 to 29 form part of these financial statements.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****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' and the Companies Act 2006.

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 2016.

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 (registered number 00022169). 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

The financial statements have been prepared under the historical cost convention, including some assets revalued to deemed cost on the transition to FRS 102.

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 2. 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.

Going concern

The financial statements have been prepared on a going concern basis. The directors are continually reviewing future projections for the business and the financing arrangements that are in place, and are satisfied that the business will continue to have access to sufficient funds to meet its liabilities.

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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****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

Revenue represents amounts 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 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 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.

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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)**

Taxation (continued)

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.

Previously, deferred tax arising in respect of the pension deficit was treated as a reduction in the deficit. This is now recognised as a separate deferred tax asset in debtors. The prior year figures have been re-classified accordingly.

Tangible fixed assets

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.

Depreciation is charged 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%

Excess depreciation arising on the uplift of the freehold property value to deemed cost is charged against the revaluation reserve. On a subsequent sale of the freehold property, the attributable surplus remaining in the revaluation reserve will be transferred directly to the profit and loss reserve.

Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial 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 group 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.

Financial assets and liabilities

The group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors.

Debt instruments that are payable or receivable within one year, typically trade creditors or debtors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Financial assets that are measured at cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account. The impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the reporting date.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)**

Financial assets and liabilities (continued)

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.

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.

Investments

Investments in subsidiaries are stated at cost less impairment. Impairment reviews are carried out as required.

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 using the first in first out method. 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 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks including deposits with an original maturity of three months or less. Cash and cash equivalents are measured at fair value.

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.

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.

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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)**

Employee benefits (continued)

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 and finance costs.

Contributions to stakeholder pension plans and SIPPS are charged to profit or loss 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. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Operating leases

Rentals payable under operating leases are charged to profit or loss 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.

2. Critical accounting judgements and key sources of estimation uncertainty

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 19.

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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****3. Financial risk management**

The group has exposure 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 creditors 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.

4. Turnover

Turnover arises from:

	2016 £	2015 £
United Kingdom	27,183,169	25,632,720
Rest of Europe	897,408	1,041,553
	<u>28,080,577</u>	<u>26,674,273</u>

5. Net finance costs

	2016 £	2015 £
Bank interest receivable	3,564	6,322
Net interest on pension scheme deficit	(28,000)	(55,000)
	<u>(24,436)</u>	<u>(48,678)</u>

6. Operating profit

Operating profit is stated after charging/(crediting):

	2016 £	2015 £
Depreciation	96,669	78,353
Auditor's remuneration:		
- audit services	31,600	30,750
- taxation services	3,450	3,150
- other services	7,125	12,375
Property rentals	179,000	167,800
Profit on disposal of tangible fixed assets	<u>(16,605)</u>	<u>(6,973)</u>

Excess depreciation of £2,531 (2015: £2,531) arising on the revalued portion of the freehold property is charged against the revaluation reserve.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****7. Staff costs**

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

	2016 £	2015 £
Wages and salaries	2,604,960	2,430,684
Social security costs	320,538	286,549
Pension costs		
- Service cost	181,000	235,000
- Other	90,001	74,471
	<u>3,196,499</u>	<u>3,026,704</u>

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

	2016	2015
Warehousing and distribution	32	31
Office and management	14	14
	<u>46</u>	<u>45</u>

8. Directors remuneration

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

	2016 £	2015 £
Fees and management remuneration	967,255	881,876
Company contributions to money purchase pension plans	15,596	12,798
	<u>982,851</u>	<u>894,674</u>

(b) Highest paid director:

	2016 £	2015 £
Fees and management remuneration	<u>299,688</u>	<u>275,392</u>

Two directors benefited from contributions to the group's defined benefit pension scheme (2015: two).

Two directors benefited from contributions to money purchase pension schemes (2015: three).

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****9. Tax on profit on ordinary activities****(a) Tax expense included in profit and loss account**

	2016 £	2015 £
Current tax:		
UK current tax expense	1,279,797	1,163,804
Prior year overprovision	(73,125)	(45,566)
Total current tax	1,206,672	1,118,238
Deferred tax:		
Origination and reversal of timing differences	77,000	78,000
Prior year underprovision	15,748	6,655
Tax on profit on ordinary activities	1,299,420	1,202,893

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

	2016 £	2015 £
Deferred tax:		
Origination and reversal of timing differences	(240,000)	106,000
Total tax (credit)/expense included in other comprehensive income	(240,000)	106,000

(c) Reconciliation of tax expense

The tax assessed for the year is lower 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 £
Profit on ordinary activities before taxation	6,534,302	5,724,531
Profit on ordinary activities multiplied by rate of tax	1,306,860	1,159,218
Adjustment to tax charge in respect of prior periods	(57,377)	(39,911)
Effect of expenses not deductible for tax purposes	31,989	68,969
Re-measurement of deferred tax – change in tax rate	17,948	14,617
Tax on profit on ordinary activities	1,299,420	1,202,893

10. Dividends

	2016 £	2015 £
On the 'A' and 'B' ordinary shares:		
First interim paid for year	3,500,000	3,000,000
Final paid for prior year	1,000,000	1,000,000
	4,500,000	4,000,000

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****11. Tangible fixed assets**
Group and company

	Freehold property £	Short leasehold improvements £	Plant, equipment, fixtures and fittings £	Motor vehicles £	Total £
Cost:					
At 1 January 2016	675,000	290,360	831,028	338,971	2,135,359
Additions	-	-	89,155	55,370	144,525
Disposals	-	-	(94,145)	(69,553)	(163,698)
At 31 December 2016	675,000	290,360	826,038	324,788	2,116,186
Depreciation:					
At 1 January 2016	27,000	288,199	772,620	238,369	1,326,188
Provision for year	13,500	810	39,293	43,066	96,669
Disposals	-	-	(94,145)	(69,553)	(163,698)
At 31 December 2016	40,500	289,009	717,768	211,882	1,259,159
Net book value:					
At 31 December 2016	634,500	1,351	108,270	112,906	857,027
At 31 December 2015	648,000	2,161	58,408	100,602	809,171

In respect of freehold property stated at deemed cost on transition to FRS 102, the comparable historical cost and depreciation values are as follows:

	2016 £	2015 £
Historical cost	548,434	548,434
Depreciation:		
At 1 January	315,005	304,036
At 31 December	325,974	315,005
Historical cost net book value	222,460	233,429

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****12. Investments - company**

Shares in subsidiary undertakings:	£
Cost:	
At 1 January 2016 and 31 December 2016	4,120,713
Provisions:	
At 1 January 2016 and 31 December 2016	3,721,049
Net book value:	
At 31 December 2015 and 31 December 2016	399,664

At 31 December 2016, 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

13. Stocks

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Goods purchased for resale	<u>7,659,995</u>	<u>7,797,817</u>	<u>7,659,995</u>	<u>7,797,817</u>

14. Debtors

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Amounts due within one year:				
Trade debtors	5,482,262	4,847,660	5,482,262	4,847,660
Other debtors	79,500	83,809	79,319	83,629
Prepayments and accrued income	123,743	172,958	123,743	172,958
	<u>5,685,505</u>	<u>5,104,427</u>	<u>5,685,324</u>	<u>5,104,247</u>
Amounts due after more than one year:				
Deferred tax (note 16)	340,487	193,235	340,487	193,235
	<u>6,025,992</u>	<u>5,297,662</u>	<u>6,025,811</u>	<u>5,297,482</u>

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****15. Creditors**

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Amount owed to subsidiary undertaking	-	-	681,382	681,382
Trade creditors	1,164,758	838,496	1,164,758	838,496
Corporation tax	579,114	546,885	579,114	546,885
Other taxes, duties and social security costs	1,184,811	1,105,731	1,184,811	1,105,731
Other creditors and accruals	696,841	633,409	695,251	631,820
	3,625,524	3,124,521	4,305,316	3,804,314

16. Deferred taxation asset

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Capital allowances	(10,513)	5,235	(10,513)	5,235
Defined benefit pension scheme deficit	351,000	188,000	351,000	188,000
Deferred tax asset	340,487	193,235	340,487	193,235

The provision for deferred taxation has been calculated based on a corporation tax rate of 18.0% (2015 : 19.0%).

The movement during the year is analysed as follows:

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Balance at 1 January 2016	(5,235)	(11,890)	(5,235)	(11,890)
Charge for the year	15,748	6,655	15,748	6,655
Balance at 31 December 2016	10,513	(5,235)	10,513	(5,235)

17. Share capital

	Authorised, allotted and fully paid	
	2016	2015
	£	£
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
	678,001	678,001

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.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****18. Lease commitments**

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Total property rentals payable under leases are as follows:				
Within one year	145,400	150,400	145,400	150,400
Between one and five years	31,836	171,836	31,836	171,836
	177,236	322,236	177,236	322,236

19. 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 2016 were paid at the rate of 22.5% of pensionable salary plus a £400,000 deficit repair contribution. In 2017, employer contributions are expected to be £161,454.

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.

	2016	2015
	£'000s	£'000s
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	20,076	21,022
Current service cost	181	235
Interest cost	754	722
Actuarial losses/(gains)	3,290	(908)
Benefits paid	(634)	(995)
	23,667	20,076

HUNTERS & FRANKAU LIMITED

Annual Report for the year end 31 December 2016

Notes to the financial statements (continued)

19. Pension commitments – group and company (continued)

	2016 £'000s	2015 £'000s
<i>Reconciliation of fair value of plan assets</i>		
At the beginning of the year	19,087	19,163
Interest income on plan assets	726	667
Actuarial gains/(losses)	1,958	(351)
Contributions by employer	583	603
Benefits paid	(634)	(995)
At the end of the year	21,720	19,087
Fair value of plan assets	21,720	19,087
Present value of plan liabilities	(23,667)	(20,076)
Deficit in scheme	(1,947)	(989)
<i>Amounts recognised in the profit and loss amount are as follows:</i>		
Current service cost	181	235
Net interest cost	28	55
	209	290
<i>Analysis of actuarial (loss)/gain recognised in other comprehensive income:</i>		
Actual return less interest income included in net interest income	1,958	(351)
Experience gains and losses arising on the scheme liabilities	1,162	(15)
Changes in assumptions underlying the present-value of the scheme liabilities	(4,452)	923
	(1,332)	557

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)****19. Pension commitments – group and company (continued)**

	2016 £'000s	2015 £'000s
<i>Composition of plan assets</i>		
Equity/property	14,860	11,896
Bonds	5,449	4,429
Cash and other	1,411	2,762
	<hr/>	<hr/>
Total plan assets	21,720	19,087
	<hr/>	<hr/>
<i>Actual return on plan assets</i>	2,684	316
	<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.

	2016	2015
<i>Principal actuarial assumptions used at the reporting date</i>		
Discount rates	2.65%	3.80%
Future pension in payment increases	3.30%	2.90%
Future deferred pension increases	2.40%	2.00%
Inflation assumption (RPI)	3.40%	3.00%
Inflation assumption (CPI)	2.40%	2.00%
Salary growth	2.85%	2.75%
Mortality rates		
- for a male aged 65 now	21.9 Years	22.0 Years
- at 65 for a male member aged 45 now	23.2 Years	23.4 Years
- for female aged 65 now	23.9 Years	24.3 Years
- at 65 for a female member aged 45 now	25.4 Years	25.8 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 £90,001 (2015: £74,471). There were no amounts owing at the year end.

HUNTERS & FRANKAU LIMITED**Annual Report for the year end 31 December 2016****Notes to the financial statements (continued)**

20. Transactions with directors and other related party transactions

During the year the group entered into transactions in the ordinary course of business 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 £108,137 (2015: £98,431). At 31 December 2016 £8,280 (2015: £8,280) 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 2016 was £140,000 (2015: £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 2016 totalled £105,000 (2015: £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 2016 totalled £97,500 (2015: £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.

The Directors believe there are no key management personnel outside of the Board of Directors.

21. 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.

22. Reserves

Share capital – This reserve records the nominal value received for shares sold. Details of the shares can be found within note 17.

Share premium - This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Revaluation reserve – Although not required under the accounting standards, the revaluation reserve remains in order to distinguish between the distributable and non-distributable reserves. Excess depreciation arising on the historically 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 will be transferred directly to the profit and loss reserve.

Profit and loss account - This reserve records retained earnings and accumulated losses.