

Registered Number 483352

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)
Annual report and financial statements
for the year ended 31 December 2018



Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Annual report and financial statements for the year ended 31 December 2018

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Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Directors and advisers for the year ended 31 December 2018

Directors

P V Taylor

R A Sharpe

G J Raymond

S Little

C C Wooi

Registered office

Aintree Avenue

White Horse Business Park

Trowbridge

United Kingdom

BA14 0XB

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Hardman Square

Manchester

M3 3EB

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Strategic report for the year ended 31 December 2018

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

Principal activities

The company's principal activity during the year was the manufacture, importation and distribution of toiletries, skincare, cosmetics and other personal care products.

Results and dividends

The company's profit for the financial year is £2,977,000 (2017: £4,552,000) and the directors paid an interim dividend of £3,400,000 (2017: £nil) and do not recommend the payment of a final dividend (2017: £nil).

Change of ownership

On 14 December 2017, Li & Fung Limited, the company's ultimate parent undertaking at the time announced its intention to divest certain business segments, including those companies operating in the Beauty division, to Fung Group and Hony Capital, a China-based private equity firm.

On 31 January 2018, Li & Fung Limited announced that at a Special General Meeting 99.94% of independent shareholder votes had been in favour of various strategic divestments announced on 14 December 2017. The transaction was completed on 3 April 2018 and as a result LF Beauty UK Limited has become part of a smaller, more entrepreneurial specialist Beauty group, with the structure and resources to better support its full growth potential.

Review of business and future developments

The results for the year ended 31 December 2018 are summarised as follows:

	£'000
Operating profit before goodwill amortisation	4,903
Goodwill amortisation	(968)
Operating profit	3,935
Net interest payable and similar charges	(920)
Profit on ordinary activities before taxation	3,015
Tax on profit on ordinary activities	(38)
Profit for the financial year	2,977

Turnover for the year to 31 December 2018 was £126,868,000 (2017: £126,360,000), approximately level with the previous year. Operating profit before goodwill amortisation decreased in the year to £4,903,000 (2017: £6,878,000). Operating profit was affected by pressures on gross margins and operating costs. The strategy is to continue to maximise growth in existing markets and develop close partnerships with key retailers and brands whilst improving efficiencies and controlling costs.

The company's profitability, assets, liabilities and cash performance at the end of the year were in line with expectation and internal forecasts.

The company is of a specialist global beauty group offering a one stop shop for components, formulations, product development and manufacture through to point of sale. The company will continue to foster and develop its relationships within this group and with its customer base both in the UK and internationally.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Strategic report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company arise from operating in the retail market and include managing price pressure, servicing customer requirements and managing the cost base. This involves operating a selective approach to new product development and mitigating price pressures by focusing on added value items, focusing on offering a comprehensive service to key customers across all aspects of innovative product development and supply chain operations and managing the cost base in line with the pipeline of new business development.

Financial risk management

The company's operations expose it to a variety of financial risks that include credit risk, foreign currency risk and interest rate risk. The company has in place a risk management programme that seeks to limit any adverse effects of these risks on the financial performance of the company. The directors have delegated the responsibility for implementation of the policies they set, and for monitoring financial risk management, to the company's finance department.

There is an element of uncertainty resulting from Brexit, the impact of which is difficult to predict. The directors are currently monitoring the situation and planning for the potential effects of Brexit via strategic reviews of customers, suppliers and capacity and specifically the balance of manufacturing and / or outsourcing of European volumes.

Credit risk

The company has policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the company's finance department.

Interest rate risk

The company's interest bearing assets include only cash balances, all of which earn interest at a fixed rate.

Key performance indicators

Given the straight forward nature of the business, the company's directors are of the opinion that analysis using a large number of key performance indicators is not necessary for an understanding of the development, performance or position of the business. Instead the directors' focus is on straightforward business measures such as comparisons versus prior year and internal targets for turnover, gross profit margins, costs and overall profitability. Revenue by product is assessed in both value and volume.

On behalf of the Board



R A Sharpe

Director

24 September 2019

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Directors' report for the year ended 31 December 2018

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

General information

The company is a private company limited by shares and is incorporated and domiciled in Great Britain and registered in England & Wales. On 3 December 2018 the company changed its name from LF Beauty (UK) Limited to Meiyume (UK) Limited.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

G D Armstrong (resigned 28 February 2019)

P V Taylor

G J Raymond

R A Sharpe (appointed 18 June 2018)

S Little (appointed 28 February 2019)

C C Wooi (appointed 28 February 2019)

N A Cottrell (resigned 18 June 2018)

The company maintains liability insurance for its directors and officers. By virtue of the articles of association, the company has also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006, which was in place both during the financial year and at the date of approval of the financial statements.

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the in-house newspaper and newsletter, briefing groups and the distribution of the annual report.

Policy and practice on payment of creditors

The company is a registered supporter of the Better Payment Practice Group's 'Better Payment Practice Code' to which it subscribes when dealing with all of its suppliers. Copies of the Better Payment Practice Group's code are available from the Department for Business, Innovation & Skills (BIS). Trade creditors at the year end represented 59 days (2017: 59 days) of purchases. It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Political and charitable donations

The company made no political donations during the year (2017: £nil). Donations to UK charities amounted to £1,000 (2017: £nil).

Key performance indicators, risk management and dividends

These are covered in the Strategic report.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Directors' report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditors

The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

- As far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board


R A Sharpe

Director

24 September 2019

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Independent auditors' report to the members of Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Report on the audit of the financial statements

Opinion

In our opinion, Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2018; the Profit and loss account and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Independent auditors' report to the members of Meiyume (UK) Limited (formerly LF Beauty (UK) Limited) (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Nicholas Boden (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

24 September 2019

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Profit and loss account for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	126,868	126,360
Cost of sales		(105,880)	(105,196)
Gross profit		20,988	21,164
Distribution costs		(14,560)	(12,933)
Administrative expenses		(2,493)	(2,321)
Operating profit before goodwill amortisation		4,903	6,878
Goodwill amortisation		(968)	(968)
Operating profit	4	3,935	5,910
Interest payable and similar expenses	6	(957)	(1,005)
Interest receivable and similar income	6	37	-
Profit before taxation		3,015	4,905
Tax on profit	7	(38)	(353)
Profit for the financial year		2,977	4,552

All items dealt with in arriving at operating profit above relate to continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

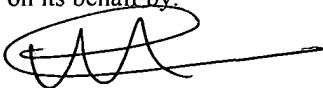
The company has no other comprehensive income other than the profit above and therefore no separate statement of comprehensive income has been presented.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Statement of financial position as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	8	13,646	14,341
Tangible assets	9	12,648	11,525
		26,294	25,866
Current assets			
Stocks	10	17,305	19,285
Debtors	11	19,239	9,758
Cash at bank and in hand		3,893	20,993
		40,437	50,036
Creditors: amounts falling due within one year	12	(17,984)	(27,687)
Net current assets		22,453	22,349
Total assets less current liabilities		48,747	48,215
Creditors: amounts falling due after more than one year	13	(20,800)	(19,845)
Net assets		27,947	28,370
Capital and reserves			
Called up share capital	16	-	-
Capital redemption reserve		267	267
Profit and loss account		27,680	28,103
Total shareholders' funds		27,947	28,370

The financial statements were approved by the board of directors on 24 September 2019 and were signed on its behalf by:



R A Sharpe
Director

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)
Registered Number 483352

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Capital redemption reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000
Balance as at 1 January 2017	-	347	23,551	23,898
Profit for the financial year	-	-	4,552	4,552
Total comprehensive income for the year	-	-	4,552	4,552
Arising on share based compensation	-	86	-	86
Realisation of share based compensation	-	(166)	-	(166)
Transactions settled directly within equity	-	(80)	-	(80)
Balance as at 31 December 2017	-	267	28,103	28,370
Profit for the financial year	-	-	2,977	2,977
Total comprehensive income for the year	-	-	2,977	2,977
Equity dividends paid	-	-	(3,400)	(3,400)
Transactions settled directly within equity	-	-	(3,400)	(3,400)
Balance as at 31 December 2018	-	267	27,680	27,947

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018

1 Principal accounting policies

Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and the Companies Act 2006.

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 consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

These financial statements are prepared on a going concern basis, under the historical cost. 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 company’s accounting policies. 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 below.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The company’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Exemptions for qualifying entities under FRS 102

FRS 102 allows qualifying entities certain disclosure exemptions. The company has taken advantage of certain available exemptions for qualifying entities.

Cash flow Statement

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its intermediate parent company, Meiyume Holdings (BVI) Limited, includes the company’s cash flows in its own consolidated financial statements.

Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned and part of the Meiyume Holdings (BVI) Limited sub group, as permitted by paragraph 33.1A of FRS102.

Revenue recognition

Sales of goods

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company’s activities. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Principal accounting policies (continued)

Foreign currency translation

Functional and presentational currency

The company's functional and presentational currency is GBP sterling.

Transactions and balances

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in other comprehensive income as qualifying cash flow hedges.

Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight line basis to write off the cost of tangible fixed assets less estimated residual value over their estimated useful lives as follows:

Leasehold improvements	4%
Fixtures and fittings	10% - 25%
Plant and machinery	10%
Motor vehicles	25%

The expected useful lives of the assets to the business are reassessed periodically in light of experience. Depreciation is charged within cost of sales and administrative expenses.

Intangible assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separate net assets acquired) arising on acquisitions of trade and assets is capitalised and amortised to nil by equal annual instalments over its estimated useful life. Group policy is to amortise goodwill over a maximum period of 20 years.

Other intangible assets and computer software

Other intangible fixed assets include:

- i) the costs incurred in developing the formulae and tooling for new products. These are amortised over two years;
- ii) brand values and customer relationships, which are amortised over 15 years; and
- iii) computer software.

Construction in progress relates to a system upgrade.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Principal accounting policies (continued)

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost, in relation to work in progress and finished goods, comprises raw materials, direct labour and production overheads.

Current and deferred income tax

The tax expense for the period comprises current tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds, respectively. The tax expense for the period comprises current tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities or as group relief to fellow subsidiary undertakings.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is intention to settle the balances on a net basis.

Employee Benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave entitlements as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Principal accounting policies (continued)

Employee Benefits (continued)

Discretionary bonus

The expected costs of discretionary bonus payments are recognised as a liability when the company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for discretionary bonus are expected to be settled within nine months of the year end date and are measured at the amounts expected to be paid when they are settled.

Post employment benefit obligation

The company participates in a defined contribution scheme, the assets of which are held in separate trustee – administrated funds. The company's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which the contributions relate.

Share based compensation

The Company's former ultimate holding company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sale growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates on the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account.

2 Critical accounting estimates and assumptions

Inventory provisioning

The company designs, manufactures and sells personal care products and is subject to changing consumer demands. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials.

3 Turnover

Turnover represents invoiced sales less returns allowances and discounts to customers, excluding value added tax. The analysis of turnover (from one class of business) by geographical area is as follows:

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Turnover (continued)

	2018 £'000	2017 £'000
United Kingdom	102,656	109,438
Rest of Europe	11,924	15,995
Rest of the world	12,288	927
	126,868	126,360

4 Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets		
- owned assets (note 9)	3,339	2,768
Amortisation		
- goodwill (note 8)	968	968
- other intangible assets (note 8)	148	233
- computer software (note 8)	197	112
Hire of assets under operating leases		
- land and buildings	978	918
- other	390	420
Services provided by the company's auditors		
- fees payable for the audit	46	46
- fees payable for other services	22	22

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

5 Employee information

The monthly average number of persons employed by the company (excluding directors) during the year was as follows:

	2018 Number	2017 Number
Production	587	554
Commercial	67	67
Administration	26	25
Total	680	646

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	18,421	15,427
Social security costs	1,736	1,676
Other pension costs (note 17)	400	337
	20,557	17,440

On 1 January 2014 the employment contracts of a fellow group undertaking were transferred to the company and subsequently recharges have been made for the services provided by these employees to that fellow group undertaking. The recharges for the year amounted to £932,000 (2017: £1,074,000) and related to 21 (2017: 23) contracts. In addition, a management charge amounting to £390,000 (2017: £450,000) was made. The table above includes these amounts.

In addition to the above, amounts paid to directors in respect of services to this company, excluding pension contributions, were £792,000 (2017: £841,000).

The emoluments of the highest paid director, excluding pension contributions, were £407,000 (2017: £612,000).

Company contributions to money purchase schemes in respect of directors amounted to £39,000 (2017: £32,000). This related to three (2017: two) directors and the company contributed £5,000 (2017: £10,000) in respect of the highest paid director.

During the year no (2017: no) directors exercised share options in the company's ultimate parent undertaking.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

6 Interest

(a) Interest payable and similar expenses

	2018 £'000	2017 £'000
Payable on bank loans and overdrafts	320	388
Payable to group companies	637	617
	957	1,005

(b) Interest receivable and similar income

	2018 £'000	2017 £'000
Receivable from group companies	37	-

7 Tax on profit

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax at 19% (2017: 19.25%)	-	1,508
Adjustment in respect of prior years	30	(892)
Total current tax	30	616
Deferred tax:		
Origination/reversal of timing differences	567	(565)
Adjustment in respect of prior years	(514)	236
Effect of changes in tax rate	(45)	66
Total deferred tax (note 14)	8	(263)
Tax on profit on ordinary activities	38	353

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

7 Tax on profit (continued)

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2017: lower) than the standard average rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	3,015	4,905
Current tax at 19% (2017: 19.25%)	573	944
Effects of:		
Expenses not deductible for tax purposes	28	35
Income not taxable for tax purposes	(34)	(28)
Other permanent items	-	(8)
Adjustment in respect of prior years	(484)	(656)
Tax rate changes	(45)	66
Total tax charge for the year	38	353

Changes to UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and as part of Finance Bill 2016 on 6 September 2016. These changes include reductions to the main rate to reduce it from 19% to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Intangible assets

	Goodwill	Other intangible assets	Computer Software	Construction in progress	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January 2018	19,351	2,133	1,610	-	23,094
Additions	-	-	-	618	618
At 31 December 2018	19,351	2,133	1,610	618	23,712
Accumulated amortisation					
At 1 January 2018	6,453	969	1,331	-	8,753
Charge for the year	968	148	197	-	1,313
At 31 December 2018	7,421	1,117	1,528	-	10,066
Net book amount					
At 31 December 2018	11,930	1,016	82	618	13,646
At 31 December 2017	12,898	1,164	279	-	14,341

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tangible assets

	Leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Motor Vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2018	2,196	10,167	20,646	8	33,017
Additions	-	3,418	1,044	-	4,462
Disposals	-	(2,971)	-	-	(2,971)
At 31 December 2018	2,196	10,614	21,690	8	34,508
Accumulated depreciation					
At 1 January 2018	296	6,169	15,021	6	21,492
Charge for the year	203	1,816	1,318	2	3,339
Disposals	-	(2,971)	-	-	(2,971)
At 31 December 2018	499	5,014	16,339	8	21,860
Net book amount					
At 31 December 2018	1,697	5,600	5,351	-	12,648
At 31 December 2017	1,900	3,998	5,625	2	11,525

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 Stocks

	2018	2017
	£'000	£'000
Raw materials	10,298	11,047
Work in progress	1,858	1,471
Finished goods	5,149	6,767
	17,305	19,285

11 Debtors

	2018	2017
	£'000	£'000
Trade debtors	4,573	4,957
Amounts owed by group undertakings	10,771	1,524
Corporation tax recoverable	1,028	-
Other debtors	-	205
Deferred tax asset (note 14)	2,187	2,195
Prepayments and accrued income	680	877
	19,239	9,758

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

During the year the company continued with its agreement to sell certain debts to HSBC on a non-recourse basis. At 31 December 2018, the company derecognised those trade debtors where substantially all of the risk has been transferred to the bank. At the year end, these balances amounted to £18,535,000 (2017: £19,578,000).

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

12 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	10,795	18,402
Amounts owed to group undertakings	387	1,559
Amounts owed to related party undertakings	35	-
Other creditors	1,996	2,439
Other taxation and social security	2,093	1,755
Group relief payable	30	616
Accruals and deferred income	2,648	2,916
	17,984	27,687

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

13 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Amounts owed to group undertakings:		
- Loan plus related accrued interest	20,800	19,845

Interest is charged at a rate of 3 month Libor plus 2.875%. The loan is unsecured and repayable between 2 and 5 years.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

14 Deferred tax asset

Deferred taxation at 31 December 2018 represents corporation tax at 19% (2017: 17%).

	2018	2017
	£'000	£'000
At 1 January	2,195	1,932
Origination and reversal of timing differences	(567)	565
Adjustment in respect of prior years	514	(236)
Effect of changes in tax rates	45	(66)
At 31 December	2,187	2,195

The deferred tax asset is included within debtors (note 11).

The elements of deferred taxation are as follows:

	Provided		Unprovided	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Accelerated capital allowances	2,141	2,094	-	-
Short term timing differences	6	5	-	-
R&D expenditure credit	40	96	-	-
	2,187	2,195	-	-

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Share based compensation

(a) Share awards

Certain employees of the company, along with other group employees, have been granted awards over shares in Li & Fung Limited. The awards vest in tranches from 31 December 2015 to 31 December 2022. Awards for 154,600 (2017: 193,300) shares vested in December 2018 in relation to employees of Meiyume (UK) Limited (formerly LF Beauty (UK) Limited).

Following Li & Fung's divestment of the company, the accounting treatment of share based compensation has been modified. The company continues to recognise a share based payment expense based on the fair value of the awards granted, but the equivalent credit of £54,000 is now booked as amounts due to group undertakings (2017: £141,000 credit directly in equity as capital contribution).

Following divestment, cash compensation is accrued in lieu of certain benefits. This amount is charged to the profit and loss account and recorded as an accrual £58,000 (2017: £61,000 treated as a reduction to capital contribution, recognised directly in equity).

The net amount recognised through equity for share awards in the year is therefore £nil (2017: £61,000).

Details of the share awards outstanding at the end of the year are as follows:

Grant	Vest	2018 Share awards Number	2017 Share awards Number
2015	2015	30,589	30,589
2015	2016	54,365	54,365
2015/2016	2017	91,492	193,300
2015/2016/2017	2018	154,600	n/a

101,808 (2017: 60,635) share awards were exercised in the year at a price of HK\$ 4.1643 (2017: 3.5924) per share.

(b) Share options

Certain employees of the company along with other group employees were previously granted options over shares in Li & Fung Limited. The options vested in three tranches from December 2015 to December 2017 and are exercisable between 1 January 2016 and 31 December 2019. During the year options for nil (2017: 604,000) shares vested in relation to employees of Meiyume (UK) Limited (formerly LF Beauty (UK) Limited). In the past, the company recognised a share-based payment expense based on the fair value of the options granted, and an equivalent credit directly in equity as a capital contribution, on a straight-line basis over the vesting period. During the year, £nil (2017: £25,000) has been charged through the profit and loss account in respect of share options granted.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Share based compensation (continued)

(b) Share options (continued)

No (2017: none) share options were exercised in the year; 604,000 (2017: 604,000) share options lapsed in the year.

Vested share options outstanding at the end of the year are as follows:

Grant- vest	Exercise price HK\$	2018 Share options Number	2017 Share options Number
2015-2015	7.49	-	604,000
2015-2016	7.49	-	604,000
2015-2017	7.49	604,000	604,000

16 Called up share capital

	2018 £	2017 £
Allotted and fully paid		
100 (2017: 100) ordinary shares of £1 each	100	100

17 Pensions

The group operates pension schemes for most of its permanent employees, the majority of which are defined contribution (money purchase) arrangements. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year and amounted to £400,000 (2017: £337,000). Contributions amounting to £35,000 (2017: £28,000) were payable to the scheme and are included in creditors.

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

18 Capital and other commitments

The company had the following annual commitments under non-cancellable operating leases:

	2018		2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	978	182	918	248
Within the second to fifth years	3,913	135	3,673	323
After more than five years	4,157	-	4,821	-
	9,048	317	9,412	571

19 Related party transactions

The company has taken advantage of the exemption allowed by IAS24 'Related Party Transactions' not to disclose any transactions or balances with wholly owned members of the group, headed by Meiyume Holdings (BVI) Limited and Li & Fung Limited (to 3 April 2018), which are included within the consolidated financial statements of both those companies for the relevant periods.

	2018	2017
Amounts owed to related parties	£'000	£'000
As at 1 January	-	-
As at 3 April – date of divestment	-	-
Other recharges	875	-
Cash received	(840)	-
As at 31 December	35	-

20 Financial commitments and contingent liabilities

The company has entered into several guarantees in respect of bank overdrafts and loans of certain group and related companies.

At 31 December 2018 the contingent liability amounted to £nil (2017: £nil).

Meiyume (UK) Limited (formerly LF Beauty (UK) Limited)

Notes to the financial statements for the year ended 31 December 2018 (continued)

21 Ultimate parent undertaking

The company's immediate parent undertaking is Lornamead Group Limited. The company's ultimate parent and controlling party was Li & Fung Limited, a company listed on the Hong Kong Stock Exchange until 3 April 2018. On that date, the sub group to which the company belonged, headed by LF Pegasus Limited, a company incorporated in the British Virgin Islands, was sold by Li & Fung Limited to Meiyume Holding Limited, a company registered in the British Virgin Islands. Its immediate parent undertaking remained Lornamead Group Limited, but from that date, by virtue of its indirect 55% holding in LF Pegasus Limited, the ultimate parent and controlling party became King Lun Holdings Limited, a company incorporated in the British Virgin Islands.

The largest group in which the results of the company are consolidated for the period to 3 April 2018 is that headed by Li & Fung Limited, the former ultimate controlling party, which is listed in Hong Kong. The consolidated financial statements of this company are available to the public from Investor Relations, Li & Fung Limited, 11th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The largest and smallest group in which the results of the company are consolidated for the year ended 31 December 2018 is that headed by Meiyume Holdings (BVI) Limited, an intermediate holding company which is incorporated and registered in the British Virgin Islands. The consolidated financial statements of this company are available to the public on request from Aintree Avenue, White Horse Business Park, Trowbridge, BA14 0XB, United Kingdom.