

**Lush Cosmetics Limited**

**Directors' report and consolidated  
financial statements**

**Registered number 04162033**

**30 June 2003**



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## Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2003.

### Principal activities

The group is principally engaged in the production and retail of cosmetic products.

### Business review

There was a profit for the year after taxation amounting to £1,190,584 (2002: profit £362,274) and was transferred to reserves. The directors do not recommend payment of a dividend.

### Directors

The directors who held office during the year were as follows:

M Constantine  
Mrs M Constantine  
A Gerrie  
P Blacker (non-executive)

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company.

**Ordinary shares**  
**30 June 2003**  
**and 30 June 2002**

M Constantine	3,000
Mrs M Constantine	2,000
A Gerrie	700
P Blacker	2,300

### Charitable contributions

Donations to charitable organisations amounted to £Nil (2002: £5,000).

### Employees

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available then, where practicable, arrangements will be made to continue the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

The development of employee involvement in the group's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees. Formal and informal briefing of employees takes place as appropriate.

The group takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability.

## Directors' report *(continued)*

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

**D M Arnott**  
Secretary

A handwritten signature in black ink, appearing to read 'D M Arnott', written over the printed name and title.

*Jan. 5. 2005.*

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



Dukes Keep  
Marsh Lane  
Southampton SO14 3EX  
United Kingdom

## **Independent auditor's report to the members of Lush Cosmetics Limited**

We have audited the financial statements on pages 5 to 20.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*  
**KPMG LLP**  
Chartered Accountants  
Registered Auditor

*7 January 2005*

**Consolidated profit and loss account**  
*for the year ended 30 June 2003*

	Note	2003 £	2002 £
<b>Turnover</b>	2	33,937,035	25,971,024
Cost of sales		(24,811,440)	(19,902,936)
<b>Gross profit</b>		<u>9,125,595</u>	<u>6,068,088</u>
Administrative expenses		(6,839,456)	(5,017,208)
Other operating income		-	143,662
<b>Operating profit</b>		<u>2,286,139</u>	<u>1,194,542</u>
Share of associates' operating profit		413,378	185,177
Interest payable	5	(23,239)	(75,274)
Interest receivable	6	53,631	57,677
<b>Profit on ordinary activities before taxation</b>	2	<u>2,729,909</u>	<u>1,362,122</u>
Tax on profit on ordinary activities	7	(1,227,058)	(708,284)
<b>Profit on ordinary activities after taxation</b>		<u>1,502,851</u>	<u>653,838</u>
Equity minority interest	17	(312,267)	(291,564)
<b>Retained profit for the year</b>		<u><u>1,190,584</u></u>	<u><u>362,274</u></u>

There were no recognised gains or losses other than the profit for the year, as reported above.

All results relate to continuing activities.

There is no difference between the profit or ordinary activities before taxation and the retained profit for the financial years above and their historical cost equivalents.

A statement of movement on reserves is given in note 16.

**Consolidated balance sheet**  
**at 30 June 2003**

	Note	2003		2002	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets – goodwill	9		77,121		-
Tangible assets	8		3,870,704		2,101,766
Investments in associates	9		591,405		181,726
			<hr/>		<hr/>
			4,539,230		2,283,492
<b>Current assets</b>					
Stocks	10	2,118,914		1,267,538	
Debtors	11	3,809,944		3,418,996	
Cash at bank and in hand		1,755,660		1,220,885	
		<hr/>		<hr/>	
		7,684,518		5,907,419	
<b>Creditors:</b> amounts falling due within one year	12	(8,820,123)		(6,343,064)	
		<hr/>		<hr/>	
<b>Net current liabilities</b>					
Due within one year		(1,135,605)		(539,645)	
Debtors due after more than one year	11	-		104,000	
		<hr/>		<hr/>	
		(1,135,605)		(435,645)	
<b>Total assets less current liabilities</b>			3,403,625		1,847,847
<b>Creditors:</b> amounts falling due after more than one year	13		(13,645)		(36,274)
<b>Provisions for liabilities and charges</b>	14		(124,117)		(54,338)
			<hr/>		<hr/>
<b>Net assets</b>			3,265,863		1,757,235
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	15		20,000		20,000
Other reserves	16		132,008		132,008
Profit and loss account	16		2,575,804		1,400,387
			<hr/>		<hr/>
<b>Equity shareholders' funds</b>	18		2,727,812		1,552,395
Minority interest	17		538,051		204,840
			<hr/>		<hr/>
			3,265,863		1,757,235
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 5/1/05 and were signed on its behalf by:



**M Constantine**  
Director



## Company balance sheet

at 30 June 2003

	Note	2003 £	2002 £
<b>Fixed assets</b>			
Investments	9	6,090,485	6,090,485
		<u>          </u>	<u>          </u>
<b>Net assets</b>		<b>6,090,485</b>	<b>6,090,485</b>
		<u>          </u>	<u>          </u>
 <b>Capital and reserves</b>			
Called up share capital	15	20,000	20,000
Other reserve	16	6,070,485	6,070,485
Profit and loss account		-	-
		<u>          </u>	<u>          </u>
<b>Equity shareholders' funds</b>	18	<b>6,090,485</b>	<b>6,090,485</b>
		<u>          </u>	<u>          </u>

These financial statements were approved by the board of directors on 5/1/05 and were signed on its behalf by:



**M Constantine**  
Director

**Consolidated cash flow statement**  
*for the year ended 30 June 2003*

Cash flow statement	Note	2003 £	2002 £
Cash flow from operating activities	19	4,033,281	2,539,927
Returns on investments and servicing of finance	20	30,392	(6,751)
Taxation – corporation tax paid		(721,334)	(213,257)
Capital expenditure	20	(2,560,709)	(650,857)
Acquisitions – payments to acquire investments in related parties		(60,323)	(1,515)
		<hr/>	<hr/>
Net cash inflow before management of liquid resources and financing		721,307	1,667,547
Financing	20	(55,346)	(154,804)
		<hr/>	<hr/>
Increase in cash		665,961	1,512,743
		<hr/>	<hr/>

**Reconciliation of net cash flow to movement in net debt (note 21)**

	2003 £	2002 £
Increase in cash in the year	665,961	1,512,743
Cash outflow from finance leases in the year	55,346	154,804
	<hr/>	<hr/>
Change in net funds resulting from cash flows and movement in net funds in the year	721,307	1,667,547
Net funds/(debt) at 1 July	824,843	(842,704)
	<hr/>	<hr/>
Net funds at 30 June	1,546,150	824,843
	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

During 2001, the company was incorporated and acquired the entire issued share capital of Lush Limited in a share for share exchange. The transaction has been accounted for under the merger method of accounting in order to reflect properly the substance of the transaction. Under the merger method, subsidiaries acquired are included as if they had always been members of the Group.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

In accordance with Section 230(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented. The result for the Company for the period was £Nil.

#### ***Goodwill***

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

#### ***Fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant & machinery	20%
Fixtures and fittings	20%
Computer equipment	33%

#### ***Investments***

Investments in subsidiary and associated companies are included in the balance sheet at historic cost.

#### ***Post-retirement benefits***

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

## Notes (continued)

### 1 Accounting policies (continued)

#### Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### Leases

Assets under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

### 2 Turnover and profit on ordinary activities before taxation

The turnover and profit before taxation are attributable to the production and retail of cosmetic goods.

The profit on ordinary activities is stated after charging:	2003 £	2002 £
Auditor's remuneration	62,225	67,223
Depreciation:		
Tangible fixed assets, owned	774,889	607,283
Tangible fixed assets, held under finance leases and hire purchase contracts	8,279	33,197
Other operating lease rentals	4,381,074	3,508,542
Hire of plant and machinery	12,328	7,505
Loss on disposal of fixed assets	-	100,950
	<hr/>	<hr/>

The Company's auditor fees are paid by Lush Limited.

### 3 Remuneration of directors

Remuneration in respect of directors was as follows:	2003 £	2002 £
Director's emoluments	892,904	446,585
	<hr/>	<hr/>

No contributions were made to money purchase pension schemes during the year (2002: £nil).

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2003 £	2002 £
Emoluments	344,107	150,235
	<hr/>	<hr/>

No company pension contributions were made to a defined contribution scheme on his behalf (2002: £nil).

## Notes (continued)

### 4 Directors and employees

Staff costs during the year were as follows:

	2003 £	2002 £
Wages and salaries	11,426,432	7,574,577
Social security costs	800,651	424,752
	<u>12,227,083</u>	<u>7,999,329</u>

The average number of persons employed by the group including directors during the year, analysed by category was as follows:

	Number of employees	
	2003	2002
Administration	76	60
Production	250	204
Retail	1,007	620
	<u>1,333</u>	<u>884</u>

### 5 Interest payable

	2003 £	2002 £
Finance charges in respect of finance leases	1,520	17,446
Other interest payable and similar charges	21,719	46,982
Interest payable – associates	-	10,846
	<u>23,239</u>	<u>75,274</u>

### 6 Interest receivable

	2003 £	2002 £
Other interest receivable and similar income	53,631	57,677

### 7 Tax on profit on ordinary activities

The tax charge represents:

	2003 £	2002 £
UK corporation tax		
Current tax on income for the year	980,536	658,425
Share of associates current tax	176,743	59,782
	<u>1,157,279</u>	<u>718,207</u>
Deferred taxation (note 14)	69,779	(9,923)
	<u>1,227,058</u>	<u>708,284</u>

## Notes (continued)

### 7 Tax on profit on ordinary activities (continued)

#### Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2002: higher) than the standard rate of corporation tax in the UK (2003:30%, 2002:30%) The differences are explained below:

	2003 £	2002 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,729,909	1,362,122
	<hr/>	<hr/>
Current tax at 30%	818,973	408,637
<i>Effects of:</i>		
Expenses not deductible for tax purposes	71,008	162,597
Capital allowances for period in excess of depreciation	172,166	53,178
Overseas tax rates	94,779	74,915
Losses utilised	352	18,880
	<hr/>	<hr/>
	1,157,279	718,207
	<hr/>	<hr/>

### 8 Tangible fixed assets

	Leasehold land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
<b>Group</b>				
<i>Cost</i>				
At 1 July 2002	806,133	52,837	3,776,043	4,635,013
Additions	97,250	9,222	2,503,989	2,610,461
Disposals	-	-	(49,752)	(49,752)
Difference arising on exchange	(18,322)	-	5,918	(12,404)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	885,061	62,059	6,236,198	7,183,318
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 July 2002	236,926	27,198	2,269,123	2,533,247
Provided in year	104,937	10,766	667,465	783,168
Difference arising on exchange	(5,349)	-	1,548	(3,801)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	336,514	37,964	2,938,136	3,312,614
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 30 June 2003	548,547	24,095	3,298,062	3,870,704
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	569,207	25,639	1,506,920	2,101,766
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 8 Tangible fixed assets (continued)

The figures stated above include assets held under finance leases and similar hire purchase contracts, as follows:

	£
Net book amount at 30 June 2003	23,880
Net book amount at 30 June 2002	86,856
Depreciation provided during the year	8,279

### 9 Intangible assets and fixed asset investments

Group	Goodwill £
<i>Cost and Net Book Value</i>	
Additions	77,121
At the end of the year	77,121
Group	Associated companies £
<i>Cost</i>	
At beginning of the year	181,726
Share of retained profit	274,046
Additions	135,633
At the end of the year	591,405
Company	Shares in subsidiary and associated companies £
Valuation at 1 July 2002 and 30 June 2003	6,090,485

## Notes (continued)

### 9 Fixed assets investments (continued)

At 30 June 2003 the company held the following investments in subsidiary and associated companies:

	Country of incorporation	Nature of business	Class of share capital held	Proportion held
<i>Subsidiary undertakings</i>				
Lush Limited	England	Manufacturer of cosmetic products	Ordinary	100%
Lush Retail Limited	England	Retailer of cosmetic products	Ordinary	39.8%
Lush Manufacturing Limited	England	Manufacturer of cosmetic products	Ordinary	100%
Lush (New Zealand) Limited	New Zealand	Retailer of cosmetic products	Ordinary	100%
Lush Australasia Manufacturing Limited	Australia	Manufacturer of cosmetic products	Ordinary	100%
Lush Australasia Retail Limited	Australia	Retailer of cosmetic products	Ordinary	100%
Lush Japan KK	Japan	Manufacturer and retailer of cosmetic products	Ordinary	58.5%
Fresh Handmade Cosmetics Private Limited	Singapore	Dormant	Ordinary	80%
Lush BV	Holland	Retailer of cosmetic products	Ordinary	100%
Lush Gmbh	Germany	Retailer of cosmetic products	Ordinary	50%
Lush USA Inc	USA	Retailer of cosmetic products	Ordinary	51%
Lush Licensing Inc	USA	Holds IP rights	Ordinary	51%
<i>Associated undertakings</i>				
Lush Handmade Cosmetics Limited	Canada	Manufacturer and retailer of cosmetic products	Class A	47%
Lush Sweden AB	Sweden	Retailer of cosmetic products	Ordinary	35%
Lush Italia SRL	Italy	Retailer of cosmetic products	Ordinary	35%
Lush Brasil LTDA	Brazil	Retailer of cosmetic products	Ordinary	35%
Lush (Switzerland) AG	Switzerland	Retailer of cosmetic products	Ordinary	35%
Lush Russia Limited Liability Company	Russia	Retailer of cosmetic products	Ordinary	35%
Lush Hungary KFT	Hungary	Retailer of cosmetic products	Ordinary	35%

The directors consider that Lush Retail Limited is a subsidiary of Lush Cosmetics Limited on the basis of Lush Cosmetics Limited's 39.8% holding in the issued share capital of Lush Retail Limited and due to the actual exercise of a dominant influence over the operating and financial policies of Lush Retail Limited.

Lush Australasia Manufacturing Pty Limited and Lush Australasia Retail Pty Limited are 100% subsidiaries of Lush (New Zealand) Limited.



## Notes (continued)

### 9 Fixed assets investments (continued)

At 30 June 2003 the company had participating interests in the following companies. These companies are not considered material to the financial statements and are consequently held at nil cost.

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Posrednik Promet D.O.O	Croatia	Ordinary	35%	Retailer of cosmetic products
Lush South Korea	South Korea	Ordinary	35%	Retailer of cosmetic products

The following information is relevant to an understanding of the group's investment in its associates.

The total of the group's profit before taxation from interests in associates was £413,378 (2003: £nil).

Where certain 15% aggregate thresholds are breached the following should be given. The amounts included in respect of associates comprise the following:

	Associates 2003 £
Share of turnover of associates	4,499,561
Share of assets	
Share of fixed assets	535,129
Share of current assets	1,055,188
	1,590,317
Share of liabilities	
Due within one year	(866,754)
Due after one year	(132,158)
	(998,912)
Share of net assets	591,405

### 10 Stocks

	2003 £	Group 2002 £
Raw materials	1,093,643	571,288
Work in progress	39,697	17,306
Finished goods	985,574	678,944
	2,118,914	1,267,538

## Notes (continued)

### 11 Debtors

	2003 £	Group 2002 £
Amounts owed by related parties (note 26)	857,697	595,446
Other debtors	1,792,794	1,726,584
Prepayments	1,159,453	1,096,966
	<u>3,809,944</u>	<u>3,418,996</u>

Included above are the following amounts which are due after more than one year:

Amounts owed by related parties	-	104,000
	<u>-</u>	<u>104,000</u>

### 12 Creditors: amounts falling due within one year

	2003 £	Group 2002 £
Bank overdraft	180,082	311,268
Amounts due under finance leases	15,783	48,500
Trade creditors	3,446,534	720,644
Corporation tax	995,939	736,736
Social security and other taxes	483,801	412,538
Other creditors	1,082,727	2,054,007
Accruals and deferred income	2,191,462	2,059,371
Amounts owed from associate company	423,795	-
	<u>8,820,123</u>	<u>6,343,064</u>

### 13 Creditors: amounts falling due after more than one year

	2003 £	Group 2002 £
Amounts due under finance leases	13,645	36,274
	<u>13,645</u>	<u>36,274</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2003 £	2002 £
Within one year	15,783	48,500
In the second to fifth years	13,645	36,274
	<u>29,428</u>	<u>84,774</u>

**Notes (continued)**

**14 Provisions for liabilities and charges - Group**

	Deferred taxation £
At 1 July 2002	54,338
Provided during the year	69,779
	<hr/>
At 30 June 2003	124,117
	<hr/>

The elements of deferred taxation are as follows:

	2003 £	2002 £
Differences between accumulated depreciation and capital allowances	124,117	54,338
	<hr/>	<hr/>

**15 Called up share capital**

	2003 £	2002 £
<b>Group and company</b>		
Authorised		
100,000 ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
20,000 ordinary shares of £1 each	20,000	20,000
	<hr/>	<hr/>

**16 Statement of movement on reserves**

	Other Reserves £	Profit and loss account £
<b>Group</b>		
At 1 July 2002	132,008	1,400,387
Retained profit for the year	-	1,190,584
Arising on exchange differences	-	(15,167)
	<hr/>	<hr/>
At 30 June 2003	132,008	2,575,804
	<hr/>	<hr/>

	Other reserves £
<b>Company</b>	
At 1 July 2002 and at 30 June 2003	6,070,485
	<hr/>

## Notes (continued)

### 17 Equity minority interest

The minority interests in the reserves of:

	2003 £	2002 £
Lush Retail Limited	488,513	194,587
Lush Australasia Manufacturing Pty Limited	-	(27,122)
Lush Australasia Retail Limited	-	24,916
Lush New Zealand Limited	-	(700)
Fresh Handmade Cosmetics Private Limited	(84,055)	(83,113)
Lush Japan KK	109,675	96,272
Lush USA Inc	6,630	-
Lush GmbH	17,288	-
	<u>538,051</u>	<u>204,840</u>

The minority interest (credit)/charge in the consolidated profit and loss account may be analysed as follows:

	2003 £	2002 £
Lush Retail Limited	292,893	227,186
Lush Australasia Manufacturing Pty Limited	-	(16,967)
Lush Australasia Retail Limited	(18,953)	18,771
Lush New Zealand Limited	-	(242)
Fresh Handmade Cosmetics Private Limited	(942)	(13,794)
Lush Japan KK	35,146	76,610
Lush USA Inc	2,964	-
Lush GmbH	1,159	-
	<u>312,267</u>	<u>291,564</u>

### 18 Reconciliation of movements in equity shareholders' funds

	2003 £	2002 £
<b>Group</b>		
Profit for the financial year	1,190,584	362,274
Movement on other reserves	(77,121)	(172)
Arising on exchange	(15,167)	5,023
	<u>1,098,296</u>	<u>367,125</u>
Net increase in shareholders' funds	1,098,296	367,125
Shareholders' funds at 1 July 2002	1,552,395	1,185,270
	<u>2,650,691</u>	<u>1,552,395</u>
Shareholders' funds at 30 June 2003	2,650,691	1,552,395
		<u>2003 and 2002 £</u>
<b>Company</b>		
Shareholders' funds at 1 July 2002 and 30 June 2003		<u>6,090,485</u>

## Notes (continued)

### 19 Reconciliation of operating profit to operating cash flows

	2003 £	2002 £
Operating profit	2,286,139	1,194,542
Depreciation	783,168	640,480
Loss on sale of tangible fixed assets	-	100,950
Increase in stock	(851,376)	(347,441)
Increase in debtors	(494,646)	(267,362)
Increase in creditors	2,316,561	1,218,758
Exchange differences	(6,565)	-
	<u>4,033,281</u>	<u>2,539,927</u>

### 20 Analysis of cash flows

	2003 £	2002 £
<b>Returns on investment and servicing of finance</b>		
Interest received	53,631	57,677
Interest paid	(23,239)	(64,428)
	<u>30,392</u>	<u>(6,751)</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(2,610,461)	(650,857)
Disposal of tangible fixed assets	49,752	-
	<u>(2,560,709)</u>	<u>(650,857)</u>
<b>Financing</b>		
Capital element of finance lease rentals	(55,346)	(154,804)

### 21 Analysis of changes in net funds

	At 1 July 2002 £	Cash flow £	At 30 June 2003 £
Cash in hand and at bank	1,220,885	534,775	1,755,660
Overdrafts	(311,268)	131,186	(180,082)
	<u>909,617</u>	<u>665,961</u>	<u>1,575,578</u>
Finance leases due within one year	(48,500)	32,717	(15,783)
Finance leases due outside one year	(36,274)	22,629	(13,645)
	<u>824,843</u>	<u>721,307</u>	<u>1,546,150</u>

## Notes (continued)

### 22 Commitments

The company had no capital commitments at 30 June 2003 or 30 June 2002.

Annual commitments under non cancellable operating leases in respect of land and buildings are as follows

	2003 £	2002 £
Operating leases which expire:		
Within one year	95,000	58,500
In the second to fifth years inclusive	1,070,967	-
Over five years	3,879,700	-
	<hr/> 5,045,667 <hr/>	<hr/> 58,500 <hr/>

### 23 Contingent liabilities

There were no contingent liabilities at 30 June 2003 or 30 June 2002.

### 24 Pension scheme

The company operates a defined contribution pension scheme for the benefit of the directors and certain employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

### 25 Transactions with directors

During the year, the group paid rent for a property jointly owned by Mr M Constantine, Mrs M Constantine and Mrs E Bennett, amounting to £58,500 (2002 £58,500). Mr M Constantine is a director of Lush Limited, Lush Retail Limited and Lush Manufacturing Limited. Mrs M Constantine is a director of Lush Limited and Lush Manufacturing Limited. Mrs E Bennett is a director of Lush Retail Limited.

The group paid Mr P Blacker £101,000 (2002 £101,000) for consultancy services. Mr P Blacker is a director of Lush Limited.

### 26 Related Party transactions

During the year the Group made royalty payments of £639,058 to Cosmetic Warriors Limited.