Lush Cosmetics Limited

Directors' report and consolidated financial statements

Registered number 04162033

30 June 2008

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Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2008.

Principal activities

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

Results and dividends

There was a profit for the year after taxation amounting to £9,933,000 *(2007: £5,700,000)*. A final dividend of £157.90 per share *(2007: £nil per share)*, a total of £1,215,000 *(2007: £nil)* was paid in the year.

Business review

	2008 £000	2007 £000	Movement
Turnover	**153,177**	119,987	28%
Profit before tax	**19,431**	10,278	89%
No. of shops	**546**	462	18%

The Group continued its aggressive shop opening programme with a further 113 shops opened and 29 shops closed during the year. Shop expansion was dominated by North America with 33 openings (including 11 Macy in store shops) and Japan with a further 24 openings.

Turnover for the financial year increased by 28%, a consequence of the shop expansion referred to above and positive Group like for like sales of 4.6%.

Profit before tax increased 89% to £19,431,000. Once again Japan delivered a strong performance with impressive LFL growth, continued shop expansion and a stable cost base. Elsewhere our UK manufacturing operations benefited from the increased demand from Group and licensee operations along with lower central costs.

During the year the Group purchased the remaining minority interests in Germany and Italy and the holding Company purchased 23% of its own shares

Staff again voted Lush Cosmetics one of the best 100 companies to work for (as published in the Sunday Times) and the Company remains firm in its belief in selling fresh, hand made products with ingredients bought only from companies that test for safety without the involvement of animals- and in testing its products on humans.

Risks and uncertainties

Trading Risk

The Group's results have remained strong in the early part of the new financial year, despite the difficult economic conditions, with continued like for like sales growth. There continues to be a strong focus on further investment in stores, controlling costs and product innovation in order to maintain the increase in sales and profitability.

We ensure that we have a wide range of ethical suppliers in a number of different countries to reduce our exposure to political risks, including import restrictions.

Exchange Risk

The Group has a natural hedge in place as sales from the UK are made in Sterling to foreign subsidiaries and foreign entities then trade in their local currencies. The Group does use derivative instruments to manage any significant exchange risk.

Directors' report *(continued)*

Financial Risk

The Group has no material exposure to interest rate risk as it holds limited external funding.

Liability Risk

The Group maintains usual commercial insurance policies for a business of this type.

Going Concern

On the basis of the current financial projections and facilities available, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on a going concern basis.

Directors

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

M Constantine
Mrs M Constantine
A Gerrie

Peter Blacker resigned as a Director of the Company on 30 January 2008.

Charitable contributions

Donations to charitable organisations amounted to £482,000 *(2007: £160,000)*. During the year the 'Charity Pot' hand and body lotion was launched in other countries across the Group including our 2 other main markets, the US and Japan. Retailing at £9.95 in the UK, 100% (net of VAT) goes into the Charity Pot fund to be donated to a selection of handpicked grassroots charities, campaign groups and other worthy causes

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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

K Bygrave
Secretary

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

KPMG LLP
Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent auditors' report to the members of Lush Cosmetics Limited

We have audited the group and parent company financial statements (the "financial statements") of Lush Cosmetics Limited for the year ended 30 June 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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.

Independent auditors' report to the members of Lush Cosmetics Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP.

KPMG LLP
Chartered Accountants
Registered Auditor

17th March 2009

Consolidated profit and loss account
for the year ended 30 June 2008

	Note	2008 £000	2007 £000
Turnover	2	**153,177**	119,987
Cost of sales		**(111,961)**	(87,583)
Gross profit		**41,216**	32,404
Administrative expenses		**(22,829)**	(23,495)
Operating profit	3-5	**18,387**	8,909
Share of operating result from associated undertakings		**1,418**	1,449
Other interest receivable and similar income	6	**110**	109
Interest payable and similar charges	7	**(484)**	(189)
Profit on ordinary activities before taxation		**19,431**	10,278
Tax on profit on ordinary activities	8	**(7,696)**	(4,327)
Profit on ordinary activities after taxation		**11,735**	5,951
Equity minority interest	20	**(1,802)**	(251)
Profit for the financial year		**9,933**	5,700

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 on ordinary activities before taxation and the profit for the financial years above and their historical cost equivalents.

A statement of movement on reserves is given in note 19.

Consolidated balance sheet
at 30 June 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Intangible assets	*10*		7,024		564
Tangible assets	*11*		19,765		14,433
Investments	*12*		2,417		1,927
			29,206		16,924
Current assets					
Stocks	*13*	10,766		6,868	
Debtors	*14*	18,145		16,043	
Cash at bank and in hand		5,918		4,046	
		34,829		26,957	
Creditors: amounts falling due within one year	*15*	(37,378)		(24,439)	
Net current (liabilities)/assets			(2,549)		2,518
Total assets less current liabilities			26,657		19,442
Creditors: amounts falling due after more than one year	*16*		(4,524)		(283)
Provisions for liabilities and charges	*17*		(689)		(564)
Net assets			21,444		18,595
Capital and reserves					
Called up share capital	*18*		8		10
Capital redemption reserve	*19*		2		-
Other reserve	*19*		142		142
Profit and loss account	*19*		18,607		16,318
	21		18,759		16,470
Minority interest	*20*		2,685		2,125
Shareholders' funds			21,444		18,595

These financial statements were approved by the board of directors on 2 March 2009 and were signed on its behalf by:

A Gerrie
Director

Company balance sheet
at 30 June 2008

	Note	2008		2007	
		£000	£000	£000	£000
Fixed assets					
Investments	*12*		**6,090**		6,090
Current assets					
Debtors	*14*	**16**		16	
Creditors: amounts falling due within one year	*15*	**(50)**		(16)	
Net current liabilities			**(34)**		-
Net assets			**6,056**		6,090
Capital and reserves					
Called up share capital	*18*		**8**		10
Capital redemption reserve	*19*		**2**		-
Other reserve	*19*		**6,080**		6,080
Profit and loss account	*19*		**(34)**		-
Shareholders' funds	*21*		**6,056**		6,090

These financial statements were approved by the board of directors on 2 March 2009 and were signed on its behalf by:

A Gerrie
Director

Consolidated cash flow statement
for the year ended 30 June 2008

	Note	2008 £000	2007 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		18,387	8,909
Depreciation and amortisation		7,725	5,008
Loss on sale of tangible fixed assets		257	198
Increase in stock		(3,822)	(1,191)
Increase in debtors		(1,140)	(4,954)
(Decrease)/increase in creditors		(768)	7,131
Exchange differences		(1,013)	(307)
Goodwill write-off		-	89
		19,626	14,883
Cash flow statement			
Cash flow from operating activities		19,626	14,883
Dividends received from associates		488	294
Returns on investments and servicing of finance	22	(276)	(39)
Taxation		(5,636)	(4,057)
Capital expenditure and financial investments	22	(11,409)	(6,957)
Acquisitions	22	(3,352)	(342)
Equity dividends paid		(1,215)	(469)
Cash (outflow)/inflow before management of liquid resources and financing		(1,774)	3,313
Financing	22	(2,730)	-
(Decrease)/increase in cash in the year		(4,504)	3,313
Reconciliation of net cash flow to movement in net debt	23		
(Decrease)/increase in cash in the year		(4,504)	3,313
Cash inflow from loan and lease financing		(4,051)	-
Change in net funds resulting from cash flows/movement in net debt in the period		(8,555)	3,313
Net funds at 1 July		3,748	435
Net funds at 30 June		(4,807)	3,748

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 financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules, and on a going concern basis.

On the basis of the current financial projections and facilities available, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 June 2008. 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 retained profit for the Company for the year was £7,960,000 *(2007: £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 subsidiary undertakings and associates 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 ranging from 5 to 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:

Leasehold buildings	Period of lease
Fixtures, fittings and equipment	20%
Computer equipment	33%

No depreciation is provided on leasehold land.

Investments

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

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

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

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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.

Post retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of cosmetic products to customers and is recognised on final sale to third parties.

Notes *(continued)*

2 Segmental analysis

A geographical split of the Group's turnover is as follows:

	2008 £000	2007 £000
United Kingdom	**57,276**	51,145
Asia	**48,167**	32,560
North America	**22,585**	15,839
Rest of Europe	**19,248**	15,882
Australasia	**5,901**	4,561
	153,177	119,987

3 Notes to the profit and loss account

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/(crediting):	2008 £000	2007 £000
Depreciation and other amounts written off tangible fixed assets:		
Owned	**6,535**	4,966
Leased	**268**	3
Amortisation of goodwill	**639**	39
Loss on disposal of fixed assets	**257**	198
Hire of other assets – operating leases	**21,492**	17,542
Net exchange profit	**(2,119)**	(224)

Auditors' remuneration:	2008 £000	2007 £000
Audit of these financial statements	**34**	31
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**151**	106
Other services pursuant to such legislation	**9**	11
Other services relating to taxation	**-**	2
All other services	**9**	3
Audit of financial statements of subsidiaries pursuant to legislation- non group auditors	**15**	42
Other services pursuant to such legislation- non group auditors	**32**	32

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

Notes *(continued)*

4 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	**960**	1,860

No contributions were made to money purchase pension schemes during the year*(2007: £nil)*.

The aggregate of emoluments of the highest paid director was £372,000 *(2007: £733,000)*. No company pension contributions were made to a money purchase scheme on his behalf*(2007: Nil)*.
Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

5 Staff numbers and costs

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

	Number of employees 2008	2007
Administration	**240**	283
Production	**565**	430
Retail	**2,688**	2,172
	3,493	2,885

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	**42,393**	37,066
Social security costs	**5,151**	3,968
Other pension costs	**174**	126
	47,718	41,160

The company employs no staff.

6 Other interest receivable and similar income

	2008 £000	2007 £000
Bank interest	**110**	109

7 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	**311**	141
Other	**75**	7
Interest payable – associates	**98**	41
	484	189

Notes *(continued)*

8 Tax on profit on ordinary activities

Analysis of charge in year	**2008 £000**	2007 £000 restated
UK current tax on income for the year	**2,532**	1,814
Adjustments in respect of prior periods	**(57)**	(101)
Share of associates current tax	**394**	409
Foreign tax	**5,244**	2,648
Total current tax	**8,113**	4,770
Deferred tax (note 17)	**(417)**	(443)
Tax on profit on ordinary activities	**7,696**	4,327

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2007: higher)* than the standard rate of corporation tax in the UK. The differences are explained below.

	2008 £000	2007 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**19,431**	10,278
Current tax at 29.5% *(2007: 30%)*	**5,732**	3,083
Effects of:		
Expenses not deductible for tax purposes	**94**	(208)
Capital allowances for period in excess of depreciation	**316**	182
Higher tax rates on overseas earnings	**1,915**	1,524
Unrelieved tax losses	**76**	378
Double taxation relief	**-**	(88)
Other	**31**	-
Group relief	**6**	-
Adjustments to tax charge in respect of prior periods	**(57)**	(101)
Total current tax (see above)	**8,113**	4,770

9 Dividends

	2008 £000	2007 £000
Dividend proposed and paid £157.90 per share *(2007: £Nil)*	**1,215**	-

Notes *(continued)*

10 Intangible fixed assets

Group	Goodwill £000
Cost	
At beginning of year	640
Additions	7,041
Write off on disposal	(57)
Transfer from associate	115
At end of year	7,739
Amortisation	
At beginning of year	76
Charged in year	639
At end of year	715
Net book value	
At 30 June 2008	**7,024**
At 30 June 2007	564

During the year Lush Limited acquired the following shareholdings in subsidiary undertakings:

	Acquired %	Consideration £000	Goodwill arising £000
Lush Retail Limited	31.2%	3,000	2,008
Lush GmbH	50%	1,575	1,446
Lush Italia SRL	50%	2,158	2,865
B Never too Busy to be Beautiful Limited	58.33%	17	715
Lush BV	2%	-	5
Lush NV	2%	-	2

All acquisitions of share capital in the year related to companies whose results had previously been consolidated in the Group financial statements, with the exception of B Never too Busy to be Beautiful Limited which was previously treated as an associate undertaking. Details of the net assets acquired are provided below.

On 19 May 2008 the Company acquired a further 58.33% of B Never too Busy to be Beautiful Limited. The resulting goodwill of £715,000 was capitalised and will be written off over 5 years.

Net assets at date of acquisition

		£000
Tangible fixed assets		300
Stock		76
Debtors		545
Cash		217
Creditors < 1 year		(2,335)
Net assets		**(1,197)**
Percentage of net assets acquired	58.33%	(698)
Consideration		17
Goodwill arising		**715**

The acquired undertaking made a loss of £202,000 from 1 July 2007 to the date of acquisition. In its previous financial year to 30 June 2007 the Company made a loss of £327,000.

Notes *(continued)*

11 Tangible fixed assets

Group	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Computer Equipment £000	Total £000
Cost				
At 1 July 2007	3,884	23,292	1,817	28,993
On acquisition (see note 10)	-	294	6	300
Difference arising on exchange	205	1,439	83	1,727
Additions	4,678	6,049	683	11,410
Disposals	(72)	(483)	(10)	(565)
At 30 June 2008	8,695	30,591	2,579	41,865
Depreciation				
At 1 July 2007	1,520	11,962	1,078	14,560
Difference arising on exchange	60	670	32	762
Provided in year	1,433	4,955	415	6,803
Impairment provision	-	283	-	283
On disposals	(21)	(282)	(5)	(308)
At 30 June 2008	2,992	17,588	1,520	22,100
Net book value				
At 30 June 2008	**5,703**	**13,003**	**1,059**	**19,765**
At 30 June 2007	2,364	11,330	739	14,433

Included in the total net book value is £897,000 (2007: £nil) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £290,000 (2007: £3,000).

Notes *(continued)*

12 Fixed asset investments

Group	Associated companies £000
Cost	
At beginning of year	1,927
Exchange differences	134
Share of profit for year	471
Goodwill on acquisition	(115)
At end of year	**2,417**

Company	Shares in subsidiary and associated companies £000
Cost or valuation at 1 July 2007 and 30 June 2008	6,090

At 30 June 2008 the company held the followingprincipal investments in subsidiary and associated companies:

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Subsidiary undertakings				
Lush Limited	England	Ordinary	100%	Manufacturer of cosmetic products
Lush Retail Limited	England	Ordinary	72%	Retailer of cosmetic products
Lush Dublin Limited	Republic of Ireland	Ordinary	72%	Retailer of cosmetic products
Lush (Ireland) Limited	Northern Ireland	Ordinary	72%	Dormant
Lush Manufacturing Limited	England	Ordinary	100%	Manufacturer of cosmetic products
Lush (New Zealand) Limited	New Zealand	Ordinary	93%	Retailer of cosmetic products
Lush Australasia Manufacturing Pty Limited	Australia	Ordinary	93%	Manufacturer of cosmetic products
Lush Australasia Retail Pty Limited	Australia	Ordinary	90.2%	Retailer of cosmetic products
Lush Licensing Inc.	USA	Ordinary	52%	Holds IP rights

Notes *(continued)*

12 Fixed assets investments *(continued)*

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Subsidiary undertakings (continued)				
Lush Japan KK	Japan	Ordinary	54.5%	Manufacturer and retailer of cosmetic products
Lush BV	Holland	Ordinary	98%	Retailer of cosmetic products
Lush GmbH	Germany	Ordinary	100%	Retailer of cosmetic products
Lush Cosmetics S.L	Spain	Ordinary	100%	Retailer of cosmetic products
Lush SARL	France	Ordinary	100%	Retailer of cosmetic products
Lush NV	Belgium	Ordinary	98%	Retailer of cosmetic products
Lush Austria GmbH	Austria	Ordinary	50%	Retailer of cosmetic products
Lush Sweden AB	Sweden	Ordinary	50%	Retailer of cosmetic products
Lush Italia SRL	Italy	Ordinary	100%	Manufacturer and retailer of cosmetic products
Lush USA Inc.	USA	Ordinary	52%	Retailer of cosmetic products
Lush Internet Inc.	USA	Ordinary	52%	Retailer of cosmetic products
Lush LLC	Dubai	Ordinary	100%	Retailer of cosmetic products
Seebimeri OU	Estonia	Ordinary	80%	Retailer of cosmetic products
Cosmetique Frais Fait Main SARL	France	Ordinary	100%	Retailer of cosmetic products
B Never too Busy to be Beautiful Limited	England	Ordinary	75%	Retailer of cosmetic products
Lush Bratislava s.r.o.	Slovakia	Ordinary	50%	Retailer of cosmetic products
Associated undertakings				
Lush Handmade Cosmetics Limited	Canada	Class A	47.1%	Manufacturer and retailer of cosmetic products
Lush Russia Limited Liability Company	Russia	Ordinary	35%	Retailer of cosmetic products

Notes *(continued)*

12 Fixed assets investments *(continued)*

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 £1,320,000 *(2007: £1,408,000)*.

The amounts included in respect of all associates comprise the following:

	Associates 2008	Associates 2007 £000
Share of turnover of associates	**17,308**	12,991
Share of assets		
Share of fixed assets	**1,510**	1,625
Share of current assets	**3,892**	2,764
	5,402	4,389
Share of liabilities		
Due within one year	**(2,889)**	(2,620)
Due after one year	**(492)**	(521)
	(3,381)	(3,141)
Share of net assets	**2,021**	1,248
Goodwill on acquisition	**-**	115
Total	**2,021**	1,363
Shown as:		
Fixed asset investment (note 12)	**2,417**	1,927
Provisions for associates (note 17)	**(396)**	(564)
	2,021	1,363

13 Stocks

	Group 2008 £000	Group 2007 £000
Raw materials	**5,489**	3,509
Work in progress	**220**	141
Finished goods	**5,057**	3,218
	10,766	6,868

Notes *(continued)*

14 Debtors

	Group 2008 £000	Group 2007 £000
Amounts owed by associated undertakings	**2,282**	4,092
Other debtors	**9,425**	7,388
Prepayments and accrued income	**5,317**	3,859
Deferred taxation (see note 17)	**1,121**	704
	18,145	16,043

	Company 2008 £000	Company 2007 £000
Amounts owed by group undertakings	**16**	16

15 Creditors: amounts falling due within one year

	Group 2008 £000	Group 2007 £000
Bank overdraft	**6,674**	298
Finance leases	**127**	-
Bank loans	**400**	-
Trade creditors	**9,304**	6,545
Amounts owed to associated undertakings	**3,730**	5,761
Taxation and social security	**5,594**	4,043
Other creditors	**5,563**	3,660
Accruals and deferred income	**5,986**	4,132
	37,378	24,439

	Company 2008 £000	Company 2007 £000
Amounts owed to group undertakings	**34**	-
Other creditors	**16**	16
	50	16

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	Group 2008 £000	Group 2007 £000
Bank loans	**2,855**	-
Finance leases	**669**	-
Other	**1,000**	283
	4,524	283
Bank loans		
Between one and two years	**1,661**	-
Between two and five years	**1,121**	-
Due after five years	**73**	-
	2,855	-
Within one year	**400**	-
	3,255	-

There are 2 bank loans arrangements:
1) A £2m sterling loan repayable in twenty equal quarterly instalments. £1m is interest free for the first year. Interest is charged at 1.5% over the UK bank base rate.
2) A €6.3m revolving credit facility which is repayable on 25 April 2010. Interest is charged at 1.5% over EURIBOR.

	Group 2008 £000	Group 2007 £000
Finance leases		
Between one and five years	**478**	-
Due after five years	**428**	-
Less future finance charges	**(237)**	-
	669	-
Within one year	**127**	-
	796	-

17 Provisions for liabilities and charges

	Dilapidation provision £000	Provision for associates £000	Total £000
At 1 July 2007	-	564	564
Provided during the year	293	34	327
Transfer to subsidiary	-	(202)	(202)
At 30 June 2008	**293**	**396**	**689**

Notes *(continued)*

17 Provisions for liabilities and charges *(continued)*

	Deferred taxation asset £000
At 1 July 2007	704
Credit to the profit and loss for the year	417
At 30 June 2008	**1,121**

The elements of the deferred taxation asset are as follows:

	2008 £000	2007 £000
Differences between accumulated depreciation and capital allowances	**(445)**	8
Tax Losses	**(204)**	(150)
Other timing differences	**(472)**	(562)
	(1,121)	(704)

18 Called up share capital

	2008 £000	2007 £000
Authorised		
100,000 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
7,700 (2007: 10,000) Ordinary shares of £1 each	**8**	10

Notes *(continued)*

19 Share capital and reserves

	Capital Redemption reserve	Other reserve	Profit and loss account
	£000	£000	£000
Group			
At 1 July 2007	-	142	16,318
Arising on exchange differences	-	-	350
Profit for the year	-	-	9,933
Dividends paid	-	-	(1,215)
Purchase of own shares	2	-	(6,779)
At 30 June 2008	**2**	**142**	**18,607**

	Share capital	Capital Redemption reserve	Profit and loss account	Other reserve
	£000	£000	£000	£000
Company				
At 1 July 2007	10	-	-	6,080
Repurchase of own shares	(2)	2	(6,779)	-
Profit for year	-	-	7,960	-
Dividends paid	-	-	(1,215)	-
At 30 June 2008	**8**	**2**	**(34)**	**6,080**

20 Equity minority interest

The minority interests in the balance sheet is analysed as follows

	2008	2007
	£000	£000
Lush Retail Limited	**157**	944
Lush Japan KK	**5,228**	2,690
Lush USA Inc.	**(1,791)**	(830)
Lush GmbH	-	128
Lush Italia SRL	-	(520)
Lush Sweden AB	**(92)**	(25)
Lush Austria GmbH	**(144)**	(55)
Lush BV	**(4)**	(9)
Lush NV	**(4)**	(3)
Lush Australasia Retail Pty Limited	**(229)**	(146)
Lush Australasia Manufacturing Pty Limited	**(41)**	(27)
Lush (New Zealand) Pty Limited	**(41)**	(20)
Seebimeri OU	**(6)**	(2)
B Never too Busy to be Beautiful Limited	**(329)**	-
Lush Bratislava s.r.o.	**(19)**	-
	2,685	2,125

Notes *(continued)*

20 Equity Minority Interest *(continued)*

The minority interest charge in the consolidated profit and loss account is analysed as:

	2008 £000	2007 £000
Lush Retail Limited	**163**	(660)
Lush Japan KK	**3,046**	1,859
Lush USA Inc.	**(955)**	(376)
Lush GmbH	**(2)**	76
Lush Italia SRL	**(177)**	(330)
Lush Sweden AB	**(59)**	(68)
Lush Austria GmbH	**(74)**	(44)
Lush BV	**1**	(8)
Lush Handmade Cosmetics Private Limited	**-**	-
Lush NV	**(2)**	(3)
Lush Australasia Retail Pty Limited	**(59)**	(146)
Lush Australasia Manufacturing Pty Limited	**(10)**	(27)
Lush (New Zealand) Pty Limited	**(21)**	(20)
Seebimeri OU	**(3)**	(2)
B Never too Busy to be Beautiful Limited	**(30)**	-
Lush Bratislava s.r.o.	**(16)**	-
	1,802	251

Reconciliation of the movement in minority interests in the balance sheet:

	2008 £000	2007 £000
At 1 July 2007	2,125	3,626
On acquisition	(706)	(17)
Profit and loss account	1,802	251
Dividends paid to minority shareholders	(1,043)	(473)
Foreign exchange movement	507	(302)
Adjustment in respect of minority interest dividends	-	(960)
At 30 June 2008	**2,685**	2,125

Notes *(continued)*

21 Reconciliation of movements in equity shareholders' funds

	2008 £000	2007 £000
Group		
Profit for the financial year	9,933	5,700
Dividends	(1,215)	-
Arising on exchange	350	(150)
Adjustment in respect of minority interest dividends	-	960
Purchase of own shares	(6,779)	-
Net increase in shareholders' funds	2,289	6,510
Shareholders' funds at 1 July 2007	16,470	9,960
Shareholders' funds at 30 June 2008	18,759	16,470

	2008 £000	2007 £000
Company		
Profit for the financial year	7,960	-
Dividends	(1,215)	-
Purchase of own shares	(6,779)	-
Net (decrease)/increase in shareholders' funds	(34)	-
Opening shareholders' funds	6,090	6,090
Closing shareholders' funds	6,056	6,090

Notes *(continued)*

22 Analysis of cash flows

	2008 £000	2007 £000
Returns on investment and servicing of finance		
Interest received	110	109
Interest paid	(386)	(148)
	(276)	(39)
Acquisitions		
Investment in subsidiary undertakings	(3,569)	(342)
Net cash acquired with subsidiary undertaking	217	-
	(3,352)	(342)
Capital expenditure		
Purchase of tangible fixed assets	(11,409)	(6,957)
Financing		
Purchase of own shares	(6,781)	-
New loan proceeds	3,355	-
Loan repayments	(100)	-
New finance leases	796	-
	(2,730)	-

23 Analysis of net debt

	At 1 July 2007 £000	Acquisition £000	Cash flow £000	At 30 June 2008 £000
Cash in hand, at bank	4,046	217	1,655	5,918
Overdrafts	(298)	-	(6,376)	(6,674)
	3,748	217	(4,721)	(756)
Debt due after one year	-	-	(2,855)	(2,855)
Debt due within one year	-	-	(400)	(400)
Finance leases	-	-	(796)	(796)
Net cash/(debt)	3,748	217	(8,772)	(4,807)

Notes (continued)

24 Commitments and contingent liabilities

a) The group had capital commitments of £2,094,000 as at 30 June 2008 *(£1,194,000 as at 30 June 2007)*. The company had no capital commitments at 30 June 2008 or 30 June 2007.

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

Group	2008 £000	2007 £000
Operating leases which expire:		
Within one year	**3,316**	2,229
In the second to fifth years inclusive	**6,820**	4,926
Over five years	**9,164**	8,972
	19,300	16,127

The Group has no annual commitments other than Land and buildings.

25 Pension scheme

The group 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. See note 5 for payments made during the year, there are no outstanding amounts at the year end *(2007: Nil)*.

Lush Italia SRL has an accrual for £224,000 *(2007: £223,000)* at the year end, which relates to an Employees leaving entitlement (TFR). The TFR is an arrangement required under Italian employment law and is payable when any employees retires or leaves employment.

26 Related party disclosures

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 £24,000 *(2007: £24,000)*. 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.

During the year the Company repurchased 2,300 of its own shares from Peter Blacker, a former Director of the Company.

During the year the Group made royalty payments of £1,182,000 *(2007: £1,003,000)* to Cosmetic Warriors Limited, a company under common control.

During the year a loan of £94,000 was granted to SC Cosmetics Limited, a Company in which A Gerrie and M Constantine have an interest.

Transactions and balances with principal associated undertakings and other related parties were as follows:

	Purchases 2008 £000	Purchases 2007 £000	Sales 2008 £000	Sales 2007 £000	Balance 2008 £000	Balance 2007 £000
Lush Handmade Cosmetics Limited	**10,011**	7,217	**3,711**	2,463	**(1,439)**	(760)
Lush Russia Limited Liability Company	**-**	-	**2,375**	1,649	**53**	175
HKLB Corporation Limited	**7,412**	4,427	**6,223**	3,606	**(164)**	(245)
Lefoc Limited	**496**	-	**317**	16	**(180)**	16
BACCEB Limited	**-**	-	**2**	-	**592**	381

Notes *(continued)*

27 Ultimate controlling party

In the view of the directors there is no ultimate controlling party.

28 Subsequent events note

On 1 July 2008 A Gerrie, a director of the Company, exchanged 1,020 ordinary shares of Lush Retail Limited for 255 ordinary shares in Lush Limited, these shares were then exchanged for 255 ordinary shares in Lush Cosmetics Limited.

On 9 February 2009 M Constantine, a director of the Company, exchanged 321 ordinary shares of Lush Retail Limited for 80 ordinary shares in Lush Limited, these shares were then exchanged for 80 ordinary shares in Lush Cosmetics Limited.

29 Derivatives

Lush Japan KK have entered into hedging arrangements against sterling the fair value of which were (£670,000) at 30 June 2008 *(2007: £1,109,000)*.