Lush Cosmetics Limited

Directors' report and consolidated
financial statements
Registered number 04162033
30 June 2016

Fair Tax 2016–17

Lush Distribution ltd
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Strategic Report

For the year ended 30 June 2016

The Directors present their Strategic Report on the Group for the year ended 30 June 2016.

Principal Activities

The Group's principal activity is the manufacturing and retailing of fresh handmade cosmetics. The Group had retail outlets in 48 countries and manufacturing facilities in 7 countries at the end of the year, being a combination of subsidiaries, joint ventures and associated undertakings, and licensees. The Group's subsidiaries, joint ventures and associates are listed in Note 27 to the accounts.

Review of Business

Results overview

For the year ended 30 June 2016, the Company has presented its results under FRS 102. The date of transition to FRS 102 was 1 July 2014. The effects of this transition are detailed in Note 29.

	2016	2015	Movement
No of shops (Brand)	**928**	933	(5)
No of shops (Group)	**475**	482	(7)
Brand Turnover (£'000)	**723,250**	574,097	149,153
Group Turnover (£'000)	**394,947**	326,456	68,491
Group EBITDA (£'000)	**28,874**	23,825	5,049
Exceptional Item (£'000)	**-**	(6,810)	6,810
Group Operating profit (£'000)	**15,621**	4,822	10,799
Profit on ordinary activities before tax (£'000)	**43,222**	24,534	18,688

Note 'Group' figures for shops and turnover include all countries which are fully consolidated in the profit and loss account on page 12. *'Brand' figures include all Group countries plus joint ventures, associates and licensee operations.*

Total Brand turnover (across all shops and digital sites irrespective of shareholding and including licensees) of £723.3m is 26.0% higher than last year. Excluding the impact of currency movements, total Brand turnover increased 24.0% on last year reflecting strong underlying like-for-like (LFL) growth of +19.0%, the full year effect of previous year shop openings, and the strategy of opening and relocating to higher turnover shops.

Total Group turnover (across all subsidiary undertakings) of £394.9m is 21.0% higher than last year, the underlying increase being higher at 21.7% excluding the impact of currency movements. LFL growth within our Group markets was +15.2%.

Group EBITDA (before our share of joint venture profits) of £28.9m represents a £5.0m increase on last year although this increment is flattered by the impact of unrealised exchange gains this year due to the weaker pound post Brexit, meaning sterling denominated loans have become cheaper to repay in territories such as Brazil and Australasia.

Excluding the impact of unrealised exchange Group EBITDA has decreased by £3.7m with improved performances in Europe and Australasia being offset by increased losses in Japan and a decline in our 'Emerging markets' of the Middle East, Hong Kong and Brazil. We suffered a significant reduction in footfall in Hong Kong due to restrictions on mainland visitors and a slowdown in the Chinese economy whilst local conditions also remain challenging in Brazil where we will not open any further shops in the new financial year while we assess the situation further.

After depreciation and exceptional items our Group operating profit of £15.6m is £10.8m higher than last year; part of this increase is attributable to the fact that we incurred an exceptional charge of £6.8m last year in respect of our Japan business whereas we have not suffered a similar charge this year.

Strategic Report *(continued)*

Review of Business *(continued)*

Our Japan business reported an operating loss of £8.2m which is £4.9m higher than last year. Despite the increased losses we feel more optimistic about the future of this market than at the time of writing this report last year. Through investment in our stores and training of our staff we have managed to arrest the decline in shop LFL which finished at exactly flat (0.0%) for the year. The recovery has continued into the new financial year at +6.4% LFL for the first six months to December. Having fully impaired the value of Lush Japan's fixed assets at 30 June 2015 (£6.8m), the Directors of Lush Cosmetics Limited have concluded that the improvement in trading outlook shows that a further provision is not currently required against the assets acquired in the year ended 30 June 2016.

Once we have included our share of profit from joint ventures and associates, profit before tax increases to £43.2m which is £18.7m higher than last year; once again we enjoyed a significant increment in our share of profit of the North America business (which is accounted for under the joint venture method) from £19.4m to £26.6m.

We were pleased to continue the Group bonus scheme for senior and long service employees which paid out £4.9m (an increase of £1.1m on last year), and once again increased amounts raised for charitable causes by £0.9m (for more detail refer to 'Charitable donations' in the Directors' report).

Financial position

Having posted record pre-tax profits of £43.2m, the Group is in a solid financial position finishing the year with net surplus cash of £22.2m despite having re-invested £29.0m into our retail portfolio, factories and digital projects. Dividends of £2.25m were also paid in the year. This strength is supplemented by having just renewed our Barclays facility allowing us to borrow up to £35m if needed, enabling us to continue our support and investment in struggling markets such as Japan and Brazil. We also have local borrowing facilities available to us in Japan (with Sumitomo Mitsui, Yokohama and Mizuho banks) and in our joint venture undertakings in North America (with Wells Fargo bank).

Strategy

We continue to work towards the key objectives set back in 2013, being 1,000 shops in prime sites with an eye on £1m average turnover, to be *the* online cosmetics retailer and continue to change the game in terms of our product offering *with a focus on preservative free, ultra-fresh product using 'beyond ethical' ingredients.*

An update on stores and online is provided within the sections below. On our product offering the introduction of many of the 'Oxford St' exclusive products throughout the rest of our store portfolio contributed to our sales growth; in 2016 these accounted for 14% of our total Brand turnover. We have now achieved self-preserving status for our entire shower gel range which previously accounted for the highest volume of preservatives. Consequently, Christmas at Lush in 2016 has been totally preservative free.

In the next year we will be focussing on employee engagement through setting up an Employee Benefit Trust and increasing benefits for our shop and factory staff (more detail in Employees section below) whilst also maintaining further controlled investment in capital expenditure.

Stores

After the excitement of opening our 9,500 sq ft. Oxford Street store last year, this year has seen us concentrating on opening larger stores within key locations where our sales were capped by insufficient sales space; there were 17 key relocations completed within Group countries during the year including repositioning in the major centres of Lakeside, Meadowhall and Manchester Arndale in the UK. The LFL growth experienced in relocations has exceeded the average growth being experienced elsewhere.

We have continued to address the property estate in Japan as part of our 4 year plan to return it to profit. 17 shops were closed in the year which were mostly low turnover and located in unsuitable shopping malls, but we also opened 3 new shops including the first 'big' street shop in central Tokyo and invested in 9 relocations and 10 refits; the relocations and refits have resulted in LFL growth well above the average trend.

Our Global shop count reduced by 5 over the course of the year finishing at 928, the net of 54 openings and 59 closures. Shop openings were once again most prevalent in the US (our joint venture undertaking) which opened 18 new shops and closed the year with 191 shops. There were 19 openings in our Group companies. Of the closures, 21 relate to the closure of our market in Taiwan as our trading partner was in breach of his licence and a further 17 in Japan as mentioned above.

Strategic Report *(continued)*

Review of Business *(continued)*

Once again we have made significant headway in our average sale per store and number of £1m shops. Our number of shops taking more than £1m increased by 71 to 197 whilst 26 shops took over £2m (an increase of 13). Our average sales per shop increased to £718k from £575k last year.

Online and Digital

Online sales in our Group countries grew by 26% to £32.6m. In 2016 we redesigned our open-source drupal architecture to enable our global countries to effectively 'plug in' to one master website, controlled within the UK but with local content. We are now involved in the slow, bumpy migration from one system to another.

We have also been reviewing our Group digital strategy in line with the core ethics of the Brand which has resulted in 3 main objectives. Firstly to invest in our own infrastructure for digital products built on ethical hardware free from conflict material and hosted within environmentally friendly data centres and powered by renewable energy sources. Secondly to continue our advancement in open source design creating bespoke solutions for the business and potentially share this back into the open source community to benefit others. Lastly on ethical data and privacy, we aim to ensure 100% transparency of how we use our customer's information and give them full control over what is shared and kept securely by the Group.

Manufacturing and Sourcing

Our brand sales have now doubled over the last 3 years which is a great achievement but one that brings with it many challenges, in particular with respect to sourcing raw materials whilst maintaining our ethical standards and being able to fulfil our Retail outlets in the most efficient way possible.

Global Manufacturing has seen over 140 million items produced in the last financial year, an extra 16 million items on the previous year. Our aim was to supply Europe from within central Europe to support the anticipated sales growth we are currently seeing, we have introduced our newest manufacturing facility in Dusseldorf, Germany. In 2017 the German manufacturing team will supply 6 central European markets. The Balkans manufacturing team have additionally started to supply Spain and Portugal, alongside the Italian and the Balkan markets, thus further alleviating demand on the UK manufacturing business. UK manufacturing will continue with the supply of 20 international markets whilst supporting new product launches and global product development. Japan will now take over supply of Hong Kong and Singapore markets from the UK and in addition the new Thailand market. Further strategic decisions will see Brazil supplying Chile in the new year. North America will continue investment on new facilities and upgrading equipment to cope with the huge success the market is experiencing. Australia will also take additional space on site of the current unit to ensure supply demand is met for both the Australian and New Zealand retail markets. Investment in our EC manufacturing business will see a focus on improvements in premises and processes.

Our commitment to sourcing sustainable, high quality and natural essential oils remains as strong as ever but our global demand continues to grow at a much faster rate than the global essential oils market which did result in some shortages in the year. In the short term we manage our exposure to supply, exchange rate and political risks (including import restrictions) by ensuring we have a wide range of ethical suppliers in a number of countries. We also mitigate supply risks through a flexible and responsive creative process – when certain essential oils become unavailable we are able to react quickly to reformulate our products with substitutes or similar oils from different origins. Our longer term strategy is to invest, either directly or through partnerships, in regenerative projects to grow, distil and extract our own essential oils. This has been a major focus this year and good progress has been made with several growing project proposals being explored and approved for funding.

Employees

The Group has a policy of communicating openly to employees and provides information about the business's performance on an ongoing basis. Our regular international meetings are great forums for clearly communicating our values, our buying stories, our innovation and our charitable giving stories as well as our financial results. The training and development of employees, to ensure their involvement in the Group's business, is regularly reviewed and the directors are committed to encouraging greater involvement for all employees.

Strategic Report *(continued)*

Employees *(continued)*

We have also been looking at ways to bring an element of employee ownership to the business. One of our key objectives is the long term stability of the business and that it maintains its independence so that our strategy is not disrupted. Through an Employee Benefit Trust we believe that we can provide staff members with a more formalised voice on important matters such as changes in ethics and ownership and at the same time raise their level of engagement to maintain the business performance in uncertain times. We are committed to setting up such a Trust which will initially purchase 10% of newly issued shares in Lush Cosmetics Limited.

The Group is committed to a fair wage at all levels of the business. In order to retain and attract the highest calibre of staff to run our shops and manufacturing businesses we will pay the Living Wage as set by the Living Wage Foundation for all permanent UK staff from April 2017 whilst also continuing to review the rates of pay in our International markets. 72% of our UK workforce are women and we will also be increasing maternity pay benefits and introducing childcare funding benefits to enable more women to return to work after having children. We will also be increasing paternity leave benefits for new fathers within our UK workforce.

The Group takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, body piercings, hair styles, body art, hair colour, religion or disability. Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an existing employee becomes ill or disabled we work hard to support them and, where practicable, to find an appropriate vacancy in order to continue their employment. Disabled employees are supported and given fair consideration for training, career development and promotion.

Key Performance Indicators (KPIs)

The Group uses several KPIs to monitor the performance of the business, the main indicators being our turnover, operating profit and profit on ordinary activities before taxation which are stated in the table on page 1. In addition we also monitor the following indicators:

Like For Like sales (LFL) - for all individual shops (including relocated stores) that have been trading for greater than one year and also from a total territory and Group perspective. As mentioned above the LFL growth in the year was +19.0% across all shops and digital outlets in the Lush Brand, and +15.2% across our Group companies only.

Average sales - we monitor average shop sales by country when appraising additional investment and as a measure of our progress in opening bigger stores with higher turnover. Average shop sales have increased from £575k to £718k in the year.

Gross margin% - we monitor this on a monthly basis, particularly for our Manufacturing operations, against our previous expectations to ensure that any variations in our material and staff costs can be understood and explained, and acted upon where the costs are of a controllable nature

We also place great emphasis on the 'Candy shop' mystery shop visits and results which can range from a 1* rating to 5*. These visits are carried out by a central team employed by Lush Limited and are carried out consistently across shops worldwide.

Future outlook

Sales in the first half of the new financial year have continued the positive trend with Brand sales growth of +22.3% reflecting continued healthy LFL growth of +18.5%; in our Group countries sales growth is +13.6% and LFL growth +13.0%. We continue to invest in opening and relocating stores where suitable premium sites can be found and have opened/relocated 20 Group stores in the first half with a further 16 already committed in the rest of the financial year.

Principal risks and uncertainties

The management of the business and execution of the Group's strategy are subject to risks as with any large undertaking in a competitive market.

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Brexit

The Brexit decision 7 days before the end of our financial year sent shockwaves through the business. First and foremost on our minds were our UK staff many of whom do not have British citizenship (20% of our UK workforce and 35% of our staff in Poole) and in common with 3.5m other Europeans working in Britain suddenly felt unwelcome and understandably upset. Everything has been done to reassure them that there will be no redundancies and we have offered roles within the new Germany facility for anyone wishing to leave the UK – to date more than 80 staff have relocated to Germany.

But what does it mean from a business perspective? To date Lush has flourished from the freedom of movement of people and goods, and now we face uncertainty in both of these areas. The negotiation of new trade agreements could take years, but the risk is that we will be paying more import duties across the business. With Britain close to full employment and with a severe skills shortage we are concerned that restrictions on free movement of people will impact the availability of both the skilled and the unskilled restricting future growth in both our UK Manufacturing and Buying facilities; having opened our new Germany manufacturing facility during the year we will be reviewing other options for growth outside of the UK. With little clarity on the government's approach to the implementation of Brexit this remains a key uncertainty for the business going forward.

Economic and political climate

Given the number of territories in which we have a presence, we remain alert to changes in customers' sentiment as a result of economic and political factors which have had an impact on our sales in Hong Kong and Brazil in particular. There has been no noticeable post Brexit impact on our UK sales although we do anticipate more difficult economic conditions in 2017 which may impact consumer sentiment. We will also be monitoring the impact of the new Trump administration on our US market, the potentially destabilising political landscape in Europe, and the impact of conflict and low oil prices on the economic prospects of the Middle East. While the economic climate remains subdued in some of our markets we have experienced impressive Global sales growth which once again illustrates the uniqueness of our products which distinguish us from the rest of the High Street.

Supply of raw materials

As explained more fully under 'Manufacturing and Sourcing', the growth of the Lush Brand in the last 3 years means that sourcing high quality essential oils has become more of a challenge for us, exacerbated by crop failures and shortages. We deal with this by ensuring we have a wide range of ethical suppliers in a number of countries and also by reformulating products where necessary, whilst having the long term strategy of being able to grow, distil and extract our own essential oils.

Financial risk

On 1 August 2016 we completed the renewal of our Barclays multi-currency revolving credit facility which allows us to borrow up to £35m over the next 3 years, providing a platform for further investment opportunities as and when they arise. The Directors have reviewed financial projections and cash flows for the 12 months from the date these accounts are approved, along with covenant compliance under the bank facilities up to its expiry, and 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.

Foreign exchange

The Group is subject to exchange risk due to the multinational nature of the business, although natural hedges do exist between some currencies. The Group uses derivative instruments to manage any significant exchange risk in accordance with prescribed Group policy. Sterling has weakened considerably as a result of Brexit uncertainty, but as a Global business we are well positioned to deal with this, the higher costs of our raw material imports in the UK being offset by the cheaper cost of our UK exports to Group and non-Group customers.

The Strategic Report was approved by the Board of Directors on 3 March 2017 and signed on its behalf by:

M Constantine
Director

Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2016.

Results and dividends

There was a profit for the financial year after taxation amounting to £30,035,000 *(2015: £12,978,000).* Dividends of £273.76 per share were proposed and paid during the year, a total of £2,250,000 *(2015: £nil).*

Subsequent to the year end, the directors declared an interim dividend payment on 23 February 2017. The dividend proposed was £180.50 per share, a total of £1,500,000.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M Constantine
Mrs M Constantine
K Bygrave

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Charitable contributions

Lush partners worldwide raised and set aside funds of £10,413,000 and donated a total of £8,250,000 *(2015: £6,311,000)* of funds to charities and other good causes; of the total amount donated, £6,202,000 was from the Lush Group including the relevant share of Joint Ventures and Associate countries *(2015· £4,980,000),* an increase of 25%. Funds raised in the year but not donated are carried forward for distribution in the following year.

Our charitable giving focus remains on innovative, effective giving through support of small, grassroots organisations working in the areas of environment, human rights and animal protection. We aim to support causes and organisations that are overlooked by others and also address the root causes of issues through campaigns, education and activism. Our support is not limited to registered charities. We also give donations to campaign groups and other organisations which are not registered with the Charity Commission.

We raised 60% of total charitable funds through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. We donate 100% of the retail price of the product, less VAT, to a variety of good causes working in the focus areas. In this financial year Charity Pot was sold in 36 countries and a total of £3,678,000 was donated by the Lush Group *(2015: £3,114,000).*

Other contributions to our Charitable donations total are as follows:

- The 'Sustainable Lush' (SLush) fund which raised a total of £1,510,000 *(2015: £1,640,000)* Of this £1,171,000 *(2015: £909,000)* was donated through the North American and UK funds, predominantly to permaculture farms and to some of our suppliers to enable them to become more sustainable. Ingredients from projects funded through the SLush Fund are included in our Charity Pot formula.

- The Carbon Tax fund which is a self- imposed tax charged on staff's international flights at a rate of £50 per tonne of carbon dioxide emitted with the raised funds being donated to environmental groups. A total of £314,000 was raised in the year in 8 countries of which £179,000 was donated *(2015: £130,000).*

- FunD which is a fund used to support children affected by the Fukushima disaster product, and raises funds through global sales of our FUN product; this raised £195,000 in the year *(2015: £141,000)* and total donations were £196,000 *(2015: £132,000).*

- We also ran the Lush Prize again in this financial year, where we donated a total of £250,000 *(2015: £250,000)* to the winners, all of whom are engaged in research, campaigning or training to end animal testing.

- Various limited edition products, which raise funds for specific charities and campaigns with highlights during the year. Donations from these products totalled £729,000 in the year *(2015: £446,000)* and included the Skydancer Hen Harrier bath bomb raising £145,000 for the campaign to save the hen harriers in the UK and the Love fund which raised £261,000 globally as part of the GayIsOk campaign through the sale of a special Love soap.

Directors' report *(continued)*

Taxation and Country by Country Reporting

We continue to work with the Fair Tax Mark to support the work they do to encourage companies to be open and transparent about their tax affairs. We are proud to have been awarded the Fair Tax Mark again this year and continue to promote the importance of this throughout our global business in our Ethical Tax policy which states clearly to our staff, customers and suppliers our belief that we should contribute back into the societies within which we trade by paying our taxes fairly.

Although our group consolidated turnover is not yet substantial enough to require formal country by country reporting, we continue to publically present our country by country breakdown of the taxes incurred in the counties in which we operate within our financial statements in order to improve our transparency and this also enables the readers of our accounts to appreciate that our contribution to taxation globally is made up of various components and is much greater than the corporation tax provision recorded in our profit and loss account. The country by country breakdown in respect of the year ended 30 June 2016 is as follows:

									Total taxes charged £ k		Taxes Paid £k					
Country of operation	Number of shops	Number of factories	Number of employees	External revenue - £ k	Related party revenue - £ k	Total revenue - £ k	Staff costs - £ k	Profit before tax - £ k	Tax on profits	Effective tax rate	Corporation tax	Premises tax	Payroll taxes	Stamp duty	Customs duty	**Total taxes paid - £k**
UK	103	1	3,191	125,072	158,014	**283,086**	76,555	8,790	4,545	51.7%	4,196	1,186	5,366	154	231	**11,133**
Japan [1]	128	1	1,502	68,074	860	**68,934**	28,692	(8,192)	34	-0.4%	646	117	3,959	2	131	**4,855**
Australia	29	1	493	25,301	11,835	**37,136**	11,042	2,054	(1,439)	-70 1%	127	-	506	-	78	**711**
France	43	-	371	25,192	621	**25,813**	10,335	957	173	18 1%	-	291	178	-	-	**469**
Germany	43	1	448	21,035	1,763	**22,798**	7,535	(1,706)	181	-10.6%	-	-	3,056	-	-	**3,056**
Hong Kong	10	-	197	17,171	-	**17,171**	3,239	885	236	26 7%	91	149	-	2	1	**243**
Italy	34	-	199	12,829	610	**13,439**	5,746	(1,209)	68	-5.6%	163	14	2,234	3	-	**2,414**
Middle East	15	-	192	11,492	-	**11,492**	2,903	927	28	3.1%	-	-	287	-	103	**390**
Holland	9	-	87	7,229	-	**7,229**	2,225	2,199	(275)	-12.5%	-	-	98	-	-	**98**
Spain	12	-	153	7,210	-	**7,210**	2,930	(808)	-	0.0%	-	24	763	-	-	**787**
Sweden	9	-	46	5,383	-	**5,383**	2,065	216	-	0.0%	-	16	750	-	-	**766**
New Zealand	8	-	88	4,918	-	**4,918**	1,068	650	(469)	-72.2%	-	-	6	-	10	**16**
Austria	7	-	59	4,340	-	**4,340**	1,622	411	15	3.6%	5	22	684	-	-	**711**
Belgium	5	-	35	3,361	-	**3,361**	1,046	365	0	0.0%	-	-	237	-	-	**237**
Ireland	3	-	34	3,004	-	**3,004**	802	595	(117)	-19.7%	-	63	70	-	-	**133**
Brazil	5	1	114	2,349	1	**2,350**	1,163	(2,490)	-	0.0%	-	-	397	-	67	**464**
Czechia	1	-	25	1,368	-	**1,368**	230	355	119	33.6%	82	-	59			**141**
Hungary	4	-	30	1,217	-	**1,217**	366	(143)	13	-9.3%	-	-	115	-	-	**115**
Luxembourg	1	-	7	621	-	**621**	164	151	40	26.4%	2	-	3	-	-	**5**
Portugal	2	-	14	545	-	**545**	212	(165)	-	0.0%	-	-	66	-	-	**66**
Bulgaria	2	-	10	219	-	**219**	46	10	-	0.0%	-	-	8	-	-	**8**
Estonia	1	-	8	217	-	**217**	84	94	-	0.0%	-	-	19	-	-	**19**
Latvia	-	-	14	166	-	**166**	94	63	-	0.0%	-	-	17	-	-	**17**
Lithuania	1	-	10	142	-	**142**	71	(50)	-	0.0%	-	-	15	-	-	**15**
Peru	-	-	5	-	-	-	49	(178)	-	0.0%	-	5	2	-	-	**7**
Ghana	-	-	22	-	4	4	42	(62)	-	0.0%	-	-	1	-	5	**6**
Croatia - Manufacturing	-	1	144	-	7,661	**7,661**	1,669	881	74	8.4%	1	-	16	-	-	**17**
Elimination and consolidation [2]				-	(134,877)	**(134,877)**		10,431								
Deferred tax consol [3]									(426)							
Group subtotal	475	6	7,498	348,455	46,492	**394,947**	161,995	15,031	2,800	18.6%	5,313	1,887	18,912	161	626	**26,899**
Share of PBT:																
Joint Ventures' [4]						149,939		26,542	10,127	38.2%						
Associates'						18,481		1,649	260	15.8%						
Non group subtotal						**168,420**		28,191	10,387	36.8%						
						563,367		**43,222**	**13,187**	**30.5%**						

Note 1: A fixed asset impairment was posted in the prior year for group purposes which increased the ETR. Depreciation charged locally in the current year (£2.5m) has therefore been reversed at group level in the Financial Statements, thus reducing the ETR.

Note 2: Elimination of manufacturing sales to group companies and consolidation adjustments.

Note 3: Recognition of deferred tax asset on unrecognised intra-group profits.

Note 4: The Joint Ventures' profit before tax relates to our share of the North American business.

Premises taxes refers to business rates or their country equivalent, including forestry management taxes in Peru, to allow us to harvest Rose Wood in the specific area.

Directors' report *(continued)*

Taxation and Country by Country Reporting *(continued)*

Our effective tax rate of 30.5% is higher than the standard rate of Corporation Tax in the UK of 20% predominantly due to the impact of North American profits which are taxed at a higher rate than the UK. However we have seen a reduction in our effective tax rate from the prior year due to the reduction in expenses not deductible for tax purposes, together with adjustments in respect of prior years giving rise to a credit to the tax charge, and also from the recognition of deferred tax assets in our New Zealand and Australian businesses in respect of accumulated tax losses from prior years, where our businesses have seen an increase in profitability which was significant enough in order to meet the recognition criteria for deferred tax. The negative effective tax rates seen by several companies in the Group are largely due to the tax credit arising as a result of the recognition of deferred tax assets relating to these prior year losses. It should be noted that the effective tax rate reflects the tax provision for accounting purposes which includes deferred tax and is not reflective of the Group's actual contribution to taxes during the financial year, which is shown with the country by country breakdown in the table above.

Our presence in countries where little or no tax is levied, for example the Middle East, is supported by our retail operations, where we have continued to see an increase in our Group shops from 12 to 15. In addition, the Swiss holding company was originally set up to support and supply franchises that were operating in France. Although the company has not traded since 2012/13, it does now hold the investment for our Brazilian company. It is not structured in this way for tax avoidance purposes, but due to a former trading relationship that's now terminated.

Our 'Sustainable Lush' (Slush) fund continues to allow us to be able to build a supply chain with the local communities. We have subsequently formalised our relationship with the operations that were being supported in Peru and Ghana by taking ownership of a share of these businesses. Although we do not have any shops through which we operate in these locations, our tax contribution is further increased through the payment of employee taxes, customs duty charges and land taxes in both of these locations.

Note 8 of the accounts provides further detail and narrative around the corporation tax charge for the year ended 30 June 2016, which is only one element of our tax contribution for the year.

Branches outside the UK

As at 30 June 2016 the Lush Group had overseas branches in Luxembourg and Czechia.

Disclosure of information to auditor

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.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board

M Constantine
Director

3 March 2017

29 High Street
Poole
Dorset
BH15 1AB

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the group and parent company financial statements (the "financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements;
- 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 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Lush Cosmetics Limited

Report on the financial statements

Our opinion

In our opinion, Lush Cosmetics Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2016 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' report and consolidated financial statements (the "Annual Report"), comprise:

- Consolidated balance sheet and company balance sheet as at 30 June 2016;
- Consolidated profit and loss account for the year then ended;
- Consolidated statement of comprehensive income for the year then ended;
- Consolidated statement of cash flows for the year then ended;
- Consolidated statement of changes in equity and company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Natasha Jones

Natasha Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
3 March 2017

Consolidated profit and loss account

for the year ended 30 June 2016

	Note	2016 £000	Restated 2015 £000
Turnover (including share of joint ventures' and associates' turnover)		**563,367**	448,605
Less: share of joint ventures' turnover	2	**(149,939)**	(105,667)
share of associates' turnover	2	**(18,481)**	(16,482)
Group turnover	2	**394,947**	326,456
Cost of sales		**(119,179)**	(89,492)
Gross profit		**275,768**	236,934
Operating expenses		**(260,147)**	(232,142)
Group EBITDA		**28,874**	23,825
Recurring Group depreciation and amortisation	3	**(13,253)**	(12,193)
Exceptional impairment of fixed assets	3	**-**	(6,810)
Group operating profit	3	**15,621**	4,822
Share of operating profit from joint ventures	2	**26,726**	19,582
Share of operating profit from associates	2	**1,630**	953
Net interest (payable) / receivable and similar items - Group	6	**(590)**	(596)
- Joint ventures	7	**(184)**	(222)
- Associates	7	**19**	(5)
Profit on ordinary activities before taxation		**43,222**	24,534
Tax on profit on ordinary activities - Group	8	**(2,800)**	(4,546)
- Joint ventures	8	**(10,127)**	(6,806)
- Associates	8	**(260)**	(204)
Profit for the financial year		**30,035**	12,978
Profit attributable to:			
- Owners of the parent		**28,817**	11,127
- Non-controlling interests	21	**1,218**	1,851
Profit for the financial year		**30,035**	12,978

All results relate to continuing activities.

A statement of changes in equity is given on page 16.

See note 1 (b) for details on restatement.

Consolidated statement of comprehensive income
for the year ended 30 June 2016

		2016	2016	2015	2015
		£000	£000	£000	£000
Profit for the financial year			**30,035**		12,978
Other comprehensive income:					
Currency translation differences	- Group	**2,380**		1,899	
	- Joint Ventures	**3,792**		(1,027)	
	- Associates	**400**		(393)	
	- Non-controlling interests	**101**		69	
Other comprehensive income for the year			**6,673**		548
Total comprehensive income for the year			**36,708**		13,526
Total comprehensive income attributable to:					
- Owners of the parent			**35,389**		11,606
- Non-controlling interests			**1,319**		1,920
Total comprehensive income for the year			**36,708**		13,526

Consolidated balance sheet
at 30 June 2016

	Note	2016	2016	2015	2015
		£000	£000	£000	£000
Fixed assets					
Intangible assets	10		17,828		14,832
Tangible assets	11		37,330		23,934
Investments in joint venture undertakings	12		31,607		16,797
Investments in associate undertakings	12		3,789		2,507
			90,554		58,070
Current assets					
Stocks	13	26,575		20,268	
Debtors: amounts falling due within one year	14	25,592		21,442	
amounts falling due after more than one year	14	13,229		9,669	
Cash at bank and in hand		32,270		21,301	
		97,666		72,680	
Creditors: amounts falling due within one year	15	(67,423)		(45,964)	
Net current assets			30,243		26,716
Total assets less current liabilities			120,797		84,786
Creditors: amounts falling due after more than one year	16		(139)		(183)
Provisions for liabilities	17		(4,459)		(2,136)
Net assets			116,199		82,467
Capital and reserves					
Called up share capital	19		8		8
Share premium account			987		987
Capital redemption reserve	20		3		3
Merger reserve	20		13,988		13,988
Other reserves	20		142		142
Retained earnings			98,763		65,732
Equity attributable to owners of the parent			113,891		80,860
Non-controlling interests	21		2,308		1,607
Total equity			116,199		82,467

These financial statements on pages 12 to 52 were approved by the Board of Directors on 3 March 2017 and signed on its behalf by:

M Constantine
Director

Lush Cosmetics Limited
Registered Number - 04162033

Company balance sheet
at 30 June 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Investments	*12*		**7,078**		7,078
Current assets					
Debtors	*14*	**-**		498	
Cash at bank and in hand		**1**		2	
		1		500	
Creditors: amounts falling due within one year	*15*	**(363)**		(1,557)	
Net current liabilities			**(362)**		(1,057)
Total assets less current liabilities			**6,716**		6,021
Net assets			**6,716**		6,021
Capital and reserves					
Called up share capital	*19*		**8**		8
Share premium account			**987**		987
Capital redemption reserve			**3**		3
Other reserves			**6,080**		6,080
Accumulated losses			**(362)**		(1,057)
Total equity			**6,716**		6,021

These financial statements on pages 12 to 52 were approved by the Board of Directors on 3 March 2017 and signed on its behalf by:

M Constantine
Director

Consolidated statement of changes in equity
for the year ended 30 June 2016

	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Merger and other reserves £000	Retained earnings £000	Total s'holder funds £000	Non-controlling interest £000	Total equity £000
As at 1 July 2014	8	987	3	14,130	54,746	**69,874**	(310)	**69,564**
Profit for the financial year	-	-	-	-	11,127	**11,127**	1,851	**12,978**
Other comprehensive income:								
Arising on exchange differences - Group	-	-	-	-	1,899	**1,899**	-	**1,899**
- JV	-	-	-	-	(1,027)	**(1,027)**	-	**(1,027)**
- Associates	-	-	-	-	(393)	**(393)**	-	**(393)**
- NCI	-	-	-	-	-	-	69	**69**
Total comprehensive income for the year	-	-	-	-	**11,606**	**11,606**	**1,920**	**13,526**
Purchase of own shares	-	-	-	-	(620)	**(620)**	-	**(620)**
Movement in NCI reserves	-	-	-	-	-	-	(3)	**(3)**
As at 30 June 2015	**8**	**987**	**3**	**14,130**	**65,732**	**80,860**	**1,607**	**82,467**
Profit for the financial year	-	-	-	-	28,817	**28,817**	1,218	**30,035**
Other comprehensive income:								
Arising on exchange differences - Group	-	-	-	-	2,380	**2,380**	-	**2,380**
- JV	-	-	-	-	3,792	**3,792**	-	**3,792**
- Associates	-	-	-	-	400	**400**	-	**400**
- NCI	-	-	-	-	-	-	101	**101**
Total comprehensive income for the year	-	-	-	-	**35,389**	**35,389**	**1,319**	**36,708**
Movement in associates and NCI reserves	-	-	-	-	(108)	**(108)**	(618)	**(726)**
Dividends paid *(see note 9)*	-	-	-	-	(2,250)	**(2,250)**	-	**(2,250)**
As at 30 June 2016	**8**	**987**	**3**	**14,130**	**98,763**	**113,891**	**2,308**	**116,199**

Company statement of changes in equity
for the year ended 30 June 2016

	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Other reserves £000	Accumulated losses £000	Total equity £000
As at 1 July 2014	8	987	3	6,080	(238)	**6,840**
Purchase of own shares	-	-	-	-	(620)	**(620)**
Loss for the financial year *(see note 1(b))*	-	-	-	-	(199)	**(199)**
As at 30 June 2015	**8**	**987**	**3**	**6,080**	**(1,057)**	**6,021**
Dividends received *(see note 1(b))*	-	-	-	-	3,500	**3,500**
Dividends paid *(see note 9)*	-	-	-	-	(2,250)	**(2,250)**
Loss for the financial year *(see note 1(b))*	-	-	-	-	(555)	**(555)**
As at 30 June 2016	**8**	**987**	**3**	**6,080**	**(362)**	**6,716**

Consolidated statement of cash flows
for the year ended 30 June 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Net cash from operating activities	22	**27,284**		35,326	
Taxation paid		**(4,085)**		(5,886)	
Net cash generated from operating activities			**23,199**		29,440
Investing activities					
Dividends received from joint ventures and associates		**5,795**		3,881	
Dividends paid to minority interests		**(350)**		(3)	
Interest received		**155**		93	
Interest paid		**(750)**		(636)	
Purchase of intangible and tangible fixed assets		**(29,023)**		(20,303)	
Proceeds on disposal of intangible and tangible fixed assets		**1,473**		43	
Investment in subsidiary undertakings		**(173)**		(2)	
Net cash used in investing activities			**(22,873)**		(16,927)
Financing activities					
Increase in borrowings		**8,253**		13,201	
Repayment of bank loans		**-**		(22,094)	
Purchase of own shares		**-**		(620)	
Dividends paid to the owners of the parent		**(2,250)**		-	
Net cash used in financing activities			**6,003**		(9,513)
Net increase in cash and cash equivalents			**6,329**		3,000
Cash and cash equivalents at the beginning of the year			**21,301**		19,975
Exchange adjustments on cash and cash equivalents			**4,640**		(1,674)
Cash and cash equivalents at the end of the year			**32,270**		21,301

Notes to the financial statements
(forming part of the financial statements)

1 Summary of significant accounting policies

General information

The Company is domiciled and incorporated in England as a private company limited by shares. The address of its registered office is 29 High Street, Poole, Dorset, BH15 1AB.

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in note 29.

a) Statement of compliance

The Group and individual financial statements of Lush Cosmetics Limited 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.

b) Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost accounting rules, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. Where applicable management have used its judgement in the process of applying the Group's and 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 1 (w).

Prior year restatement

During the year, the directors have re-evaluated the classification of costs on the face of the profit and loss statement in the financial statements in order to be more consistent with other retail companies. As a result certain operational costs that have previously been recorded within cost of sales have been reclassified as operating expenses, thus increasing the gross margin result from £89,635,000 to £236,934,000. There is no impact upon the previously reported profit for the financial year.

Company profit and loss account

In accordance with Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented. The net loss before dividends for the Company for the year was £555,000 *(2015: loss of £199,000)*. During the year the Company received dividend income of £292.25 per share, a total of £3,500,000 *(2015: £nil)* from Lush Ltd.

c) Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company and Group will continue trading. Based on the available facilities the directors have reviewed financial projections and cash flows for the next year following the date of approval of these financial statements, along with covenant compliance under the Group's banking facilities, and are satisfied that the Group and Company have adequate resources to continue in operation for the foreseeable future.

Exemptions for qualifying entities under FRS 102

The Company is a qualifying entity for the purpose of FRS 102. FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

i) From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows.

ii) From disclosing the Company key management personnel compensation, as required by FRS 102, paragraph 33.7.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings, together with the Group's share of results of its joint ventures and associate undertakings made up to 30 June 2016.

Subsidiaries

A subsidiary is an entity controlled by the Group, usually where the Group holds more than 50% of the equity voting rights. Control is considered to be the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Where a subsidiary has different accounting policies to the Group, adjustments are made to the results of the subsidiary to apply the Group's accounting policies when preparing the consolidated financial statements.

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 Ltd in a share for share exchange. The transaction was 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.

Joint Ventures

Joint ventures are those entities over whose activities the Group has joint control with the partners, requiring mutual consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method of accounting.

Under the equity method the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the share of profit or loss of the investee after the date of acquisition. The Group's share of the profits less losses of the investee 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.

Associates

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which the Group exercises significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associates. Investments in associates are also accounted for using the equity method of accounting.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit and loss arising on transactions with associates and joint ventures to the extent of the Group's interest in those entities.

e) Foreign currency

Functional and presentation currency

The Group financial statements are presented in pound sterling and rounded to thousands. The Company's functional and presentation currency is also pound sterling.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the rate of exchange ruling at the date of the transaction, or an approximation thereof.

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 within administrative expenses. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

e) Foreign currency *(continued)*

Translation

The assets and liabilities of overseas subsidiaries, joint ventures and associates are translated at the closing balance sheet exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised through equity in 'Other comprehensive income' and allocated to non-controlling interests as appropriate.

f) Revenue recognition

Sale of goods and services

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns and discounts and value added taxes. Turnover is derived from the sale of cosmetic products and spa treatments to customers through our Group retail and digital outlets, and through sale of finished products from Group manufacturing companies to retail companies where a controlling interest is not held.

Sales of cosmetic products made through retail outlets are recognised on sale to the customer, which is considered point of delivery. Retail sales are usually by cash or credit card. Sales are made to customers with a right to return.

Sales of cosmetic products made through the Group's digital platform are recognised when the risks and rewards of the stock have been passed to the customer. This is considered to be on despatch of the product. Sales are made to customers with a right to return.

Sales of Spa treatments are recognised at the date that the service is provided to the customer. Where vouchers for treatments are purchased in advance, the revenue is deferred until the treatment is performed.

Gift cards are also sold within retail outlets and online, the turnover for which is deferred until the goods or services are delivered to the customer. For unredeemed gift cards and vouchers, management use historical experience to identify those items that should be released to the profit and loss account during the financial period.

Sales of raw materials and finished goods to retail companies that are outside of the consolidated Lush Group are recognised when the risks and rewards have been passed to the customer. This is dependent on the supply terms agreed, but is typically when goods are despatched from the manufacturing site.

Royalty income

Lush Ltd, a company within the Group, receives royalties from operating companies outside of the Group but within the Lush Brand for use of Retail and Manufacturing Intellectual Property. The royalties are invoiced on a quarterly basis and are based on a percentage of sales.

An allocation of the royalties received are payable to Cosmetic Warriors Limited. The net royalty income received is recognised as other operating income and is therefore included within operating expenses in the consolidated profit and loss account.

Dividend income

Dividend income is recognised at the date that the dividends are appropriately approved by the shareholders of the relevant entity and is recognised as other operating income.

g) Employee benefits

The Group provides a range of benefits to employees, including bonus arrangements, paid holiday arrangements and defined contribution pension plans.

Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received and recorded as an accrual in the balance sheet where necessary.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

g) Employee benefits *(continued)*

Defined contribution pension plans

There are a number of entities within the Group that operate defined contribution pension schemes within their territory, which are managed on a local basis. A defined contribution plan is a pension plan under which the Group pays a fixed contribution into a separate scheme. The assets of the schemes are generally 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. Amounts not paid to the plans at the balance sheet date are shown in accruals in the balance sheet.

Other employment benefit plans

Lush Italia SRL operates an employees' leaving entitlement (TFR) scheme. The TFR is an arrangement required under Italian employment law and is payable when any employee retires or leaves employment. Lush SASU operate a similar arrangement under French employment law, in which an amount is payable to employees that reach retirement age whilst employed by the company. The estimated amounts payable under these schemes at the balance sheet date are recorded as accruals on the balance sheet.

Bonus arrangements

The Group operates a number of monthly and quarterly bonus plans for retail, manufacturing and adminstrative employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

h) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. 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 equity. In this case, tax is also recognised in other comprehensive income, or directly in equity, respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

The current tax charge is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws in the relevant countries that have been enacted, or substantively enacted, by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax returns in periods that are different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. A deferred tax asset is recognised only if it can be regarded as probable that the asset can be recovered against the reversal of deferred tax liabilities, or that there will be suitable taxable profits to allow the future reversal of the underlying timing differences.

Deferred tax is calculated on the basis of tax rates and laws in the relevant countries that have been enacted, or substantively enacted, by the year end and that are expected to apply to the reversal of the timing differences.

i) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets, liabilities and contingent liabilities acquired) arising on subsidiary undertakings, joint ventures and associates in respect of acquisitions since 1 January 1998 is capitalised.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

i) Goodwill *(continued)*

Goodwill is amortised over its expected useful life on a straight life basis. Based on historical performance and knowledge of the market, management consider that the expected useful life of existing goodwill should be 20 years.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss account. Reversals of impairment are recognised when the reasons for impairment no longer apply.

j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Cost includes the original purchase price, or the fair value of other consideration given, to acquire an asset at the time of its acquisition or construction, plus any directly attributable costs of preparing the asset for its intended use. Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows;

- Software and website costs	3 years

The assets are reviewed for impairment when there are indicators that the carrying value of the asset may not be recoverable, such as technological advancement.

Costs associated with maintaining computer software and digital offerings are recognised as an expense as incurred. Development costs that are directly attributable to the design and production of identifiable software and websites / mobile applications are recognised as intangible assets when the following criteria are met.

- It is probable that the Group will obtain future economic benefits from the asset.
- The project is technically feasible and the Group intends to complete and use the asset.
- Adequate technical, financial and other resources to complete development are available.
- The cost / value of the asset can be reliably measured.

Key money

Key money relates to certain premiums paid on acquisition of short leasehold property in mainland Europe and Brazil which are expected to be recoverable from subsequent tenants. Key money is not subject to amortisation as management consider the value of the asset to be driven by the relevant market conditions, rather than the asset being consumed over the life of the lease. As such, valuations are obtained from independent valuation experts at each balance sheet reporting date to identify any impairment to the carrying value of the asset based on the prevailing market value at this date.

Where the market value of the asset is lower than the carrying value of the asset this is considered an indicator of impairment and the difference is recognised as an impairment charge within the profit and loss account. The assets are subsequently reviewed at each balance sheet date for impairment indicators and the impairment charge is reversed if the impairment indicator no longer exists. The amount of any reversal that can be recognised is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognised if the impairment had not occurred.

k) Tangible fixed assets

Tangible assets, are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated, using the straight line method, 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:

- Freehold buildings	50 years
- Leasehold costs / improvements	Period of lease
- Fixtures, fittings and equipment	5 years
- Computer equipment	3 years

Land is not depreciated.

The assets are reviewed for impairment when there are indicators that the carrying value of the asset may not be recoverable. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

k) Tangible fixed assets *(continued)*

Subsequent additions

Subsequent costs are included within tangible fixed assets when recognition criteria are met. Where assets are considered replacements for existing assets, the replaced component is written down to nil NBV and reflected as a loss on disposal. When the expenditure is considered to be enhancement of an existing asset, the cost is added to the carrying value of the original asset and depreciated over the new useful economic life.

Repairs, maintenance and inspection costs are expensed as incurred.

Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in administrative expenses.

l) Leased assets

At inception of each lease the Group assesses the nature of the agreement to identify whether a lease is recognised as a finance lease or an operating lease. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

Lease incentives

Rent free periods and lease inducements receivable on entering an operating lease are recognised on the balance sheet and released to the profit and loss account on a straight–line basis over the lease term.

The Group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 July 2014) and continues to credit such lease incentives to the profit and loss account over the period to the earlier of the next break clause and the end of the original lease term.

Landlord contributions - reclassification

Contributions received from landlords at the commencement of the lease are recognised within other creditors and released to the profit and loss account on a straight–line basis over the lease term. The accounting for landlord contributions has been modified in the current year. Prior to this set of financial statements, the carrying value of the landlord contributions had been recorded within fixed assets. An adjustment has been made to the balance sheet for the year ended 30 June 2016 to reclassify landlord contributions of £448,000 from tangible fixed assets to other creditors.

m) Investments

Investments in subsidiaries, joint ventures and associates are included in the Company balance sheet at historic cost, less provision for impairment.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

n) Impairment of non-financial assets

At each balance sheet date non-financial assets are reviewed for impairment to identify when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the recoverable amount of the asset is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax cash flows as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account. If an impairment loss is subsequently reversed, the carrying value of the asset is increased to the revised estimate of its carrying value, but only to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the profit and loss account.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units, then to any capitalised intangible assets and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. A cash generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

o) Stocks

Stock is stated at the lower of cost and estimated selling price less costs to sell. Stock is recognised as an expense in the period in which the related revenue is recognised.

In determining the cost of raw materials, consumables and goods purchased for resale, the cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties.

For work in progress and finished goods, cost is taken as production cost, which includes raw material costs and an appropriate proportion of direct labour and overheads.

Stocks are regularly assessed for impairment, where the estimated selling price less costs to sell is lower than the carrying value of the stock. If an item of stock is impaired, the stock is reduced to its estimated selling price less costs to sell, and an impairment provision recognised in the profit and loss account.

p) Property deposits

Property deposits are paid to landlords on inception of the lease where applicable and are recorded in the balance sheet at the lower of cost and estimated selling price less costs to sell. No discounting is applied to the carrying value of the deposits.

q) Cash at bank and in hand

Cash, for the purpose of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Bank overdrafts, if any, are shown within borrowings in current liabilities.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

r) Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are recognised at the expected final obligation, except where there the difference between this value and the discounted present value of the obligation is considered to be material.

Contingencies

Contingent assets are not recognised in the balance sheet, but are disclosed in the financial statements when an inflow of economic benefits is considered probable.

Contingent liabilities arise as a result of past events when it is not probable that there will be an outflow of resources or that amount cannot be reliably measured at the balance sheet date, or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the balance sheet, but are disclosed in the financial statement notes unless the probability of an outflow is considered remote.

s) Financial instruments

The Group has adopted Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, amounts owed by joint ventures, associated and other related parties, property deposits and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction. Discounting of such assets is unlikely to be material and hence the assets are measured at an undiscounted amount. Such assets are subsequently carried at amortised cost using the effective interest method which, for assets falling due within one year, is likely to be the transaction price less any impairment.

At the end of each reporting period the financial assets are assessed for evidence of impairment. If the asset is impaired then the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows expected to be received discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

The financial assets are derecognised when the rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards of the ownership of the asset are transferred to another party.

Financial liabilities

Basic financial liabilities, including trade and other payables, amounts owed to associates and related parties, other creditors, bank loans and overdrafts are initially recognised at transaction price, unless the arrangement constitutes a financing transaction. Such liabilities are subsequently carried at amortised cost using the effective interest method which, for assets falling due within one year, is likely to be the transaction price less any impairment.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that some or all of the facility will be drawn down. These fees are deducted from the loan drawn down and recognised in the profit and loss account over the life of the facility.

The financial liabilities are derecognised when the liability is extinguished. This is when the contractual obligation is discharged, cancelled or expires.

Derivatives

Derivatives, such as forward foreign exchange contracts, are not considered to be basic financial instruments. The derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. Changes in the fair value of derivatives are recognised in profit or loss in operating expenses.

Foreign exchange exposure around the Lush Cosmetics Limited group of companies is monitored and controlled by the Group Treasury function, and in accordance with the Group treasury policy. Where hedging arrangements are entered into to mitigate foreign exchange risk, these contracts are taken out by Lush Limited on behalf of its global subsidiaries, enabling those companies to benefit from fixed exchange rates on a portion of its Sterling denominated purchases.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

s) Financial instruments *(continued)*

Hedging arrangements

The Group does not apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.

t) Dividends payable to shareholders

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately approved by the shareholders 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. These amounts are recognised in the statement of changes in equity.

u) Related party transactions

The Group disclosures transactions with related parties which are not wholly owned subsidiaries within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

v) Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately on the face of the profit and loss account to provide further understanding of the financial performance of the Group.

w) Key accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below;

i) *Impairment of intangible and tangible assets (see note 10 and 11)*

The Group considers whether the carrying value of intangible and tangible fixed assets are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the future cash flows from the relevant CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

ii) Impairment of investments (see note 12)

The Company considers whether the carrying values of investments are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the future cash flows from the relevant CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

iii) Stock provisions (see note 13)

Management regularly perform a review over the recoverability of the cost of stock. The provision is estimated by management based on historic stock movements, estimated future stock usage and the nature and condition of the existing stock.

iv) Recognition of deferred tax assets (see note 14)

Deferred income tax assets are recognized only to the extent that the Group believe that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

v) *Provisions (see note 17)*

Provisions have been made in respect of future dilapidation costs and onerous contracts. These have required management's best estimate of costs that will be incurred based on contractual requirements. No discounting has been applied to the calculation of these provisions.

Notes to the financial statements *(continued)*

2 Segmental analysis

The table below sets out information for each of the Group's geographic areas of operation.

	UK and Europe		Americas		Asia		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Turnover by origin										
Total turnover	**387,820**	300,219	**2,349**	1,469	**97,597**	94,158	**42,058**	33,401	**529,824**	429,247
Inter-segment sales	***(122,968)***	*(92,770)*	**-**	-	***(74)***	*(453)*	***(11,835)***	*(9,568)*	***(134,877)***	*(102,791)*
Group turnover to third parties	**264,852**	207,449	**2,349**	1,469	**97,523**	93,705	**30,223**	23,833	**394,947**	326,456
Share of joint ventures' turnover	**-**	-	**149,939**	105,667	**-**	-	**-**	-	**149,939**	105,667
Share of associates' turnover	**9,506**	9,516	**443**	367	**8,010**	6,215	**522**	384	**18,481**	16,482
Total turnover (including share of joint ventures and associates)	**274,358**	216,965	**152,731**	107,503	**105,533**	99,920	**30,745**	24,217	**563,367**	448,605

	UK and Europe		Americas		Asia		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Segment operating profit/(loss)	**22,524**	15,651	**(3,414)**	(4,953)	**(6,890)**	(4,395)	**3,401**	(1,482)	**15,621**	4,822
Share of operating profit from joint ventures	**-**	-	**26,726**	19,582	**-**	-	**-**	-	**26,726**	19,582
Share of operating profit from associates	**833**	780	**6**	5	**727**	128	**64**	40	**1,630**	953
Net interest income / (expenses)	**368**	343	**(590)**	(458)	**-**	(28)	**(533)**	(680)	**(755)**	(823)
Group profit / (loss) on ordinary activities before taxation	**23,725**	16,774	**22,728**	14,177	**(6,163)**	(4,295)	**2,932**	(2,122)	**43,222**	24,534

Net assets	UK and Europe		Americas		Asia		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Group segment net assets/(liabilities)	**78,713**	68,397	**(11,045)**	(5,576)	**10,970**	16,449	**2,165**	(16,107)	**80,803**	63,163
Joint ventures' net assets	**-**	-	**31,607**	16,797	**-**	-	**-**	-	**31,607**	16,797
Associates' net assets	**1,769**	1,283	**92**	139	**1,766**	978	**162**	107	**3,789**	2,507
Total net assets									**116,199**	82,467

Notes to the financial statements *(continued)*

2 Segmental analysis *(continued)*

Group turnover by business segment;

	2016	2015
	£000	£000
Retail sales	317,273	264,761
Internet sales	32,634	25,990
Manufacturing sales	45,040	35,705
	394,947	326,456

3 Operating profit

	2016	2015
The profit on ordinary activities before taxation is stated after charging/(crediting):	£000	£000
Depreciation of tangible fixed assets:		
Owned	10,629	10,415
Impairment of tangible assets *(see note 11)*	1,177	6,894
Amortisation of goodwill and other intangible assets *(see note 10)*	1,367	824
Impairment of intangible assets	80	870
Loss on disposal of assets	800	1,145
Inventory recognised as an expense	68,278	52,278
Impairment of inventory	766	816
Operating lease rentals – Plant and machinery	741	608
- Other	45,887	41,179
Foreign exchange (gain) / loss	(2,023)	7,034
Loss / (gain) in fair value of forward contract derivatives	1,223	(86)

Auditors' remuneration:	2016	2015
	£000	£000
Audit of these financial statements	166	56
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries, joint ventures and associates pursuant to legislation	446	314
- Other services relating to taxation	95	-
- All other services	34	25

4 Remuneration of directors

	2016	2015
	£000	£000
Directors' emoluments	1,368	491

The aggregate of emoluments received by the highest paid director during the year that were paid by the Group was £456,000 *(2015: £448,000)*. The Group has made £nil payments to the company's defined contribution pension scheme on behalf of the highest paid director *(2015: £nil)* and no contributions have been made to money purchase schemes. The director does not hold any share options.

The Group has made payments of £nil *(2015. £nil)* on behalf of the directors to the company's defined contribution pension scheme.

Notes to the financial statements *(continued)*

5 Staff numbers and costs

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

	Number of employees 2016	2015
Administration	**681**	550
Production	**2,274**	1,508
Retail	**4,543**	3,704
	7,498	5,762

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**142,211**	110,255
Social security costs	**17,211**	14,813
Other pension costs	**2,573**	1,698
	161,995	126,766

The Company employs no staff *(2015: nil).*

Key management compensation

Key management includes the directors and members of senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2016 £000	2015 £000
Salaries and other short-term benefits	**3,631**	2,160
Post-employment benefits	**3**	1
	3,634	2,161

6 Net interest (payable)/receivable and similar charges

	2016 £000	2015 £000
Interest payable on bank loans and overdrafts	**(419)**	(492)
Interest payable on other loans	**-**	(61)
Other interest payable	**(113)**	(83)
Amortisation of issue costs on bank loan	**(212)**	(212)
Bank interest receivable	**92**	93
Interest receivable from joint ventures and associates	**62**	159
Total group net interest expense	**(590)**	(596)

Notes to the financial statements *(continued)*

7 Share of joint ventures' and associates' interest and similar items

	2016 £000	2015 £000
Joint Ventures		
Interest payable on bank loans and overdraft	(155)	(140)
Other interest payable	(29)	(82)
Group share of joint ventures' interest and similar items	(184)	(222)
Associates		
Interest receivable / (payable) on bank loans and overdraft	19	(5)
Group share of associates' interest and similar items	19	(5)

8 Tax on profit on ordinary activities

Analysis of charge in year	2016 £000	2015 £000
Current Tax		
UK current tax		
UK current tax on income for the year	4,978	4,132
Adjustments in respect of prior periods	(479)	(305)
Double taxation relief	(217)	(102)
Foreign current tax		
Foreign tax	1,911	2,044
Adjustments in respect of prior periods	85	(127)
Share of joint ventures' current tax	11,025	7,016
Adjustments in respect of prior periods: joint ventures	(262)	(282)
Share of associates' current tax	281	204
Total current tax	17,322	12,580
Deferred tax		
Current year movement in timing differences	(637)	(203)
Impact of change in tax rate	(2)	1
Adjustments in respect of prior periods	(2,839)	(894)
Share of joint ventures' deferred tax	(636)	72
Share of associates deferred tax	(21)	-
Total deferred tax	(4,135)	(1,024)
Tax on profit on ordinary activities	13,187	11,556

The Group's effective tax rate for the year has decreased from 47.3% (before restatement to FRS 102) to 30.1% The UK Current Tax adjustment in respect of prior periods includes the benefit of Research and Development (R&D) claims filed with HMRC in respect of the prior years. We expect our R&D claims to continue to increase in future years as our innovation and new product development accelerates.

The Group's deferred tax asset has increased during the year, which in turn has reduced the Group's effective tax rate for the year: this is due to the recognition of deferred tax assets in a number of our territories, primarily in Australasia where our business has seen an increase in profitability, which was significant enough in order to meet the recognition criteria for deferred tax. We continue to see uncertainty over the future profitability of the Japanese business which restricts the ability to recognise deferred tax assets in respect of this territory. In addition, we continue to see unrecognised deferred tax assets in a number of loss making jurisdictions due to their historic loss position. We will continue to consider the ability to utilise these losses as at 30 June 2017, the recognition of which may reduce our effective tax rate further in that year.

Notes to the financial statements *(continued)*

8 Tax on profit on ordinary activities *(continued)*

Factors affecting the tax charge for the current year

The total tax charge for the year is higher *(2015: higher)* than the standard rate of corporation tax in the UK of 20% *(2015: 20.75%)*. The differences are explained below.

	2016	2015
	£000	£000
Total tax reconciliation		
Profit on ordinary activities before taxation	**43,222**	24,534
Current tax at 20% *(2015: 20.75%)*	**8,644**	5,091
Effects of:		
Expenses not deductible for tax purposes	**1,754**	2,748
Non-taxable income	**(130)**	(323)
Different tax rates on overseas earnings	**3,685**	2,276
Utilisation of unrecognised tax losses brought forward	**(489)**	(540)
Current year losses for which no deferred tax has been recognised	**2,950**	2,163
Foreign tax credit	**268**	854
Adjustments in respect of prior periods	**(3,495)**	(713)
Total tax (see above)	**13,187**	11,556

9 Dividends

A final dividend payment was declared by the directors on 14 December 2015. The dividend proposed was £273.76 per share, a total of £2,250,000 *(2015: £nil)*

Subsequent to the year end, the directors declared an interim dividend payment on 23 February 2017. The dividend proposed was £180.50 per share, a total of £1,500,000.

Notes to the financial statements *(continued)*

10 Intangible assets

Group	Goodwill	Key money	Software and website costs	Total
	£000	£000	£000	£000
Cost				
At 1 July 2015	10,468	11,406	5,940	27,814
Additions	-	1,320	2,626	3,946
Disposals	-	(484)	(540)	(1,024)
Foreign exchange	9	1,888	1,055	2,952
At 30 June 2016	**10,477**	**14,130**	**9,081**	**33,688**
Accumulated amortisation				
At 1 July 2015	6,408	2,390	4,184	12,982
Charged in year	302	-	1,065	1,367
Impairments	-	72	8	80
Disposals	-	(136)	(89)	(225)
Foreign exchange	-	392	1,264	1,656
At 30 June 2016	**6,710**	**2,718**	**6,432**	**15,860**
Net book value				
At 30 June 2016	**3,767**	**11,412**	**2,649**	**17,828**
At 30 June 2015	4,060	9,016	1,756	14,832

Company

The Company had no intangible assets as at 30 June 2016 *(2015: £nil)*

Notes to the financial statements *(continued)*

11 Tangible assets

	Land, leasehold and freehold buildings	Fixtures, fittings and equipment	Computer equipment	Total
Group	**£000**	**£000**	**£000**	**£000**
Cost				
At 1 July 2015	1,753	77,300	4,708	83,761
Difference arising on exchange	282	11,374	447	12,103
Additions	601	22,258	2,218	25,077
Disposals	(256)	(7,043)	(435)	(7,734)
Reclassification *(see note 1 (l))*	-	635	-	635
At 30 June 2016	**2,380**	**104,524**	**6,938**	**113,842**
Accumulated depreciation				
At 1 July 2015	947	55,239	3,641	59,827
Difference arising on exchange	226	10,254	462	10,942
Provided in year	213	9,701	725	10,639
Impairment provision	50	1,111	16	1,177
On disposals	(73)	(5,943)	(244)	(6,260)
Reclassification *(see note 1 (l))*	-	187	-	187
At 30 June 2016	**1,363**	**70,549**	**4,600**	**76,512**
Net book value				
At 30 June 2016	**1,017**	**33,975**	**2,338**	**37,330**
At 30 June 2015	806	22,061	1,067	23,934

During the year management conducted an impairment review of all retail stores that had made a negative retail margin in the financial year. The review indicated that the stores' carrying amounts exceeded their recoverable amounts by £158,000 *(2015: £746,000)* and consequently they have been written down by this amount.

The impairment loss has been recognised in operating expenses in the profit and loss account.

As a result of the losses made in the Brazilian business in the year ended 30 June 2016, a further impairment review has been performed over the carrying value of the fixed assets held in Brazil. The review indicated that the recoverable amount is lower than the net book value of the Brazilian fixed assets. Consequently an additional impairment loss of £1,294,000 *(2015: £nil)* has been recognised.

The Company does not own any fixed assets as at 30 June 2016 *(2015: £nil)*.

Notes to the financial statements *(continued)*

12 Investments in subsidiaries, joint ventures and associated undertakings

Group	Joint ventures	Associates
	£000	£000
Cost		
At 1 July 2015	16,797	2,507
Exchange differences	3,792	370
Share of profit for year	16,415	1,389
Less dividends paid by joint ventures and associates	(5,397)	(398)
Less change in bought forward reserves	-	(79)
At 30 June 2016	**31,607**	**3,789**

Company	Shares in subsidiary and associated companies
	£000
Cost and net book value	
At 1 July 2015 and 30 June 2016	**7,078**

A full list of subsidiaries, joint ventures and associates has been listed in note 27 to these accounts.

The following information is relevant to an understanding of the Group's investments in its joint ventures and associates.

The total of the Group's profit before taxation from interests in joint ventures was £26,542,000 *(2015: £19,360,000)*. The total of the Group's profit before taxation from interests in associates was £1,649,000 *(2015: £948,000)*.

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

	Joint ventures 2016	Joint ventures 2015	Associates 2016	Associates 2015
	£000	£000	£000	£000
Share of turnover of joint ventures and associates	**149,939**	105,667	**18,481**	16,482
Share of assets				
Share of fixed assets	**24,213**	16,005	**2,490**	1,820
Share of current assets	**22,576**	19,100	**4,789**	3,134
	46,789	35,105	**7,279**	4,954
Share of liabilities				
Due within one year	**(23,094)**	(24,523)	**(3,041)**	(2,067)
Due after one year	7,912	6,215	**(449)**	(380)
	(15,182)	(18,308)	**(3,490)**	(2,447)
Total share of net assets	**31,607**	16,797	**3,789**	2,507

The directors believe that the carrying value of the investments above are supported by their underlying net assets.

Notes to the financial statements *(continued)*

13 Stocks

	Group	
	2016	2015
	£000	£000
Raw materials	**19,195**	14,383
Work in progress	**1,987**	530
Finished goods	**5,393**	5,355
	26,575	20,268

There is no significant difference between the replacement cost of the stock and its carrying amount.

Stock is stated after provisions for impairment of £1,836,000 *(2015: £1,070,000).*

Company

The Company had no stock at 30 June 2016 (2015: £nil).

14 Debtors

	Group	
	2016	2015
	£000	£000
Amounts falling due within one year:		
Amounts owed by joint ventures	**1,825**	4,394
Amounts owed by associates and related parties	**2,081**	1,557
Other debtors	**7,820**	5,701
Prepayments and accrued income	**8,923**	7,443
Deferred taxation *(see note 17)*	**4,943**	1,738
Derivative financial instruments	**-**	609
	25,592	21,442
Amounts falling due after more than one year:		
Property deposits	**13,229**	9,669
Total debtors	**38,821**	31,111

	Company	
	2016	2015
	£000	£000
Amounts owed by group undertakings	**-**	498

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements *(continued)*

15 Creditors: amounts falling due within one year

	Group	
	2016	2015
	£000	£000
Bank loans and overdrafts *(see note 16)*	**10,068**	-
Trade creditors	**17,811**	13,497
Amounts owed to associates and related parties	**3,004**	4,537
Corporation tax	**3,270**	1,077
Deferred tax liability *(see note 17)*	**-**	549
VAT creditor	**1,718**	1,298
Other taxation and social security	**3,644**	3,131
Other creditors	**10,900**	8,427
Accruals and deferred income	**16,394**	13,448
Derivative financial instruments	**614**	-
	67,423	45,964

In 2015 the other creditor payable balance included a debit of £234,000 relating to unamortised issue costs arising on the Barclays facility, see note 16 for further details.

	Company	
	2016	2015
	£000	£000
Amounts owed to group undertakings	**138**	71
Other creditors	**225**	1,486
	363	1,557

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The other creditor payable in the prior year by the Company relates largely to a loan from Mrs E Bennett, a previous shareholder of the Company. This liability was fully discharged during the year ended 30 June 2016.

Notes to the financial statements *(continued)*

16 Creditors: amounts falling due after more than one year

	Group	
	2016	2015
	£000	£000
Other creditors	**139**	183
	139	183

	2016	2015
	£000	£000
Bank loans		
Between one and two years	-	(234)
Between two and five years	-	-
	-	(234)
Within one year	**10,068**	-
	10,068	(234)

The main bank loan arrangement at 30 June 2016 is a £40 million revolving credit facility in the name of Lush Cosmetics Limited, which expired 19 July 2016. The amount drawn down on this loan at 30 June 2016 was £2,322,000 *(2015: £nil)*. Cross guarantees exist between Lush Cosmetics Limited, Lush Ltd, Lush Retail Limited, Lush Manufacturing Limited, Lush B.V, Lush GmbH and Lush SASU.

Issue costs totalling £600,000, arising on the above credit facility, have been capitalised. These issue costs have been allocated to the profit and loss account over the three year term of the facility. The total unamortised costs at 30 June 2016 was £23,000 *(2015: £234,000)*. These costs have been offset against the bank loan payable, whilst in the year ended 30 June 2015 the unamortised costs were included in other creditors as the facility drawn down was £nil at this date.

The balance above also includes amounts drawn down on various unsecured short term facilities taken out by Lush Japan KK with four Japanese banks to fund local working capital requirements. At the 30 June 2016 Lush Japan KK has balances of Y1,000,000,000 with The Bank of Yokohama and Y70,000,000 with Mizhuo Bank outstanding, which is equivalent to £7,769,000. The interest rate charged on these loans range from TIBOR +0.15% to TIBOR +0.2% and the loans are repayable on demand.

On the 1st August 2016 the Group entered into a new three year revolving credit facility with Barclays Bank, see Note 28 (Post Balance Sheet Events) for details of the new agreement.

Notes to the financial statements *(continued)*

17 Provisions for liabilities

	Onerous lease provision £000	Dilapidation provision £000	Other provision £000	Total £000
At 1 July 2015	161	1,898	77	2,136
Difference arising on exchange	-	408	-	408
Released during the year	(19)	(82)	(77)	(178)
Utilised during the year	-	-	-	-
Charged to the profit and loss account	-	2,093	-	2,093
At 30 June 2016	**142**	**4,317**	-	**4,459**

Onerous lease provision

The onerous lease provision of £142,000 *(2015: £161,000)* relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income, which is estimated to be utilised over the remaining life of the lease. A provision for onerous contracts has also been recognised when the expected economic benefits derived from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Future operating losses are not provided for.

Dilapidation provision

The dilapidation provision of £4,317,000 *(2015: £1,898,000)* relates to future expenditure that is required on termination of property leases in the name of Lush group companies. The provision is calculated on retail property leases that are within 3 years of termination.

Deferred Tax

	Deferred taxation asset £000	Deferred taxation liability £000
At 1 July 2015	1,738	(549)
Charge to the profit and loss for the year	65	574
Foreign exchange adjustment	297	(25)
Adjustment in respect of prior years	2,843	-
At 30 June 2016	4,943	-

The elements of the deferred taxation are as follows:	2016 £000	2015 £000
Differences between accumulated depreciation and capital allowances	1,088	628
Unrelieved tax losses carried forward	1,699	-
Other timing differences	2,156	561
	4,943	1,189

The Group intends to reinvest earnings of its non-UK subsidiaries in their respective operations in order to grow the businesses locally. As such, at 30 June 2016, we have not made a provision for UK or additional withholding taxes of approximately £1,723,000 of deferred tax on unremitted earnings of our overseas subsidiaries, associates and joint ventures. This primarily relates to distributable reserves of our North American business.

Notes to the financial statements *(continued)*

17 Provisions for liabilities *(continued)*

The Group has gross unutilised tax losses of £26,919,000 *(2015: £24,978,000)* at 30 June 2016. The majority of the losses arising during the current year relate to our subsidiaries in Japan (£13,267,000) and Brazil (£6,826,000).

A deferred tax asset has not been recognised in respect of these losses due to uncertainty over their utilisation, nor in respect of other timing differences of £828,000 giving rise to an unrecognised deferred tax asset of £9,485,000 *(2015: £7,335,000).*

It is anticipated that the losses in respect of our German, Spanish, Swedish, French and Austrian retail businesses, totalling £5,790,000, may potentially be utilised within the next two years. Were there greater certainty over their utilisation, a deferred tax asset would have been recognised in respect of these losses, which would have resulted in a benefit to our tax total tax charge for the year of £1,410,000.

The amount of the net reversal of deferred tax expected to occur next year is £1,530,000 *(2015: £1,877,000)* relating to the reversal of existing timing differences on tangible fixed assets, other timing differences and utilisation of losses.

UK corporation tax rate
The Finance Act 2015 reduced the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. A further reduction to 17% with effect from 1 April 2017 was announced in the 2016 UK Budget. UK deferred tax assets have been recognised at 20% being the rate at which the assets are expected to reverse. We do not consider that the reduction in UK tax rates will have a material impact on the deferred tax recognised in respect of the UK entities

18 Financial Instruments

The Group has the following financial instruments:

	2016		2015	
	£000	**£000**	£000	£000
Financial assets				
Financial assets at fair value through profit or loss				
- Derivative financial instruments *(see note 14)*		-		609
Financial assets - debt instruments measured at amortised cost				
- Amounts owed by joint ventures	**1,825**		4,394	
- Amounts owed by associates and related parties	**2,081**		1,557	
- Other debtors	**7,820**		5,701	
- Property deposits	**13,229**		9,669	
		24,955		21,321
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative financial instruments *(see note 15)*		**614**		-
Financial liabilities measured at amortised cost				
- Bank loans	**10,068**		-	
- Trade creditors	**17,811**		13,497	
- Amounts owed to associates and related parties	**3,004**		4,537	
- Other creditors	**10,900**		8,427	
		41,783		26,461

Notes to the financial statements *(continued)*

18 Financial Instruments *(continued)*

Derivative financial instruments – Forward contracts

The Group enters into forward foreign currency contracts to mitigate the exchange rise arising for certain purchases made in foreign currency both within the Group and from third party suppliers. At 30 June 2016, the outstanding contracts are all due to mature within 12 months *(2015: 12 months)* of the year end. The Group is committed to sell £2,261,000 *(2015: £1,739,000)* for a fixed US dollar amount, and to sell €400,000 *(2015: €2,928,000)*, Y347,821,000 *(2015 Y689,129,000)*, HRKnil *(2015: HRK8,314,000)*, HKD10,954,000 *(2015: HKD16,200,000)* and AUD1,703,000 *(2015: AUD3,194,000)* for a fixed sterling amount

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates appropriate for the contracts in place. The fair value of the forward foreign currency contracts at the year end rate is a liability of £614,000 *(2015: fair value asset of £609,000).*

19 Called up share capital

Group and Company

	2016 £000	2015 £000
Allotted, called up and fully paid		
8,219 *(2015: 8,219)* Ordinary shares of £1 each	**8**	8

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

20 Other reserves

Reserves other than share capital, share premium and profit and loss reserve include;

	Capital redemption reserve £000	Merger reserve £000	Other reserves £000
Group			
At 1 July 2015 and 30 June 2016	3	13,988	142
Company			
At 1 July 2015 and 30 June 2016	3	-	6,080

Capital redemption reserve

The Group and Company capital redemption reserve consists of the nominal value of the company's shares that were purchased by the parent company. These shares were cancelled immediately on purchase.

Merger reserve

The merger reserve has arisen on the purchase of shares in a subsidiary company in the year ended 30 June 2013. The transaction qualified for merger relief under the Companies Act 2006, therefore the difference between the nominal value of the shares issued in the parent company issued in exchange for the shares purchased and the net value of the investment has been accounted for in the merger reserve.

Other reserves

The Group and Company balances included in the other reserve relates to an adjustment to the valuation of the carrying value of investments made as part of a restructuring of the Group in the year ended 30 June 2002.

Notes to the financial statements *(continued)*

21 Non-controlling interests

The non-controlling interest in the balance sheet is analysed as follows:

	2016 £000	2015 £000
Lush Retail Limited	1,758	848
YRC Limited	799	1,035
Seebimeri OU	9	(37)
B Never too Busy to be Beautiful Limited	(8)	(34)
Lush Bulgaria O.D.D	6	-
Lush Baltia	(101)	(116)
LB-LIT UAB	(87)	(51)
Lush Peru SAC	(20)	(3)
Lush Swedru Ghana Limited	(48)	(35)
	2,308	1,607

The non-controlling interest charge in the consolidated profit and loss account is analysed as:

	2016 £000	2015 £000
Lush Retail Limited	914	684
YRC Limited	249	424
Seebimeri OU	47	3
B Never too Busy to be Beautiful Limited	26	831
Lush Fresh Handmade Cosmetics D.O.O	-	1
Lush Bulgaria O.D.D	5	1
Lush Baltia	32	(43)
LB-LIT UAB	(25)	(24)
Lush Peru SAC	(18)	(14)
Lush Swedru Ghana Limited	(12)	(12)
	1,218	1,851

Reconciliation of the movement in non-controlling interests in the balance sheet:

	2016 £000	2015 £000
At 1 July	1,607	(310)
On acquisition of non-controlling interests *(see note 10)*	(268)	-
Total comprehensive income attributable to non-controlling interests	1,319	1,920
Dividends paid to non-controlling shareholders	(350)	(3)
At 30 June	2,308	1,607

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

	Acquired %	Consideration £000	Shareholding at 30 June 2016 %
YRC Limited	7	173	75

On 5 November 2015, Lush Ltd purchased 7 additional shares in YRC Limited, the holding company in the Middle East, for a consideration of AED 969,625. This increased the shareholding in this company from 68% to 75% and has resulted in an additional £268,000 being recognised through equity, being the difference between the increase in the share of assets recognised in the Group balance sheet and the consideration paid. YRC Limited is a company registered in the UAE and holds 100% of control of the retail entities in Dubai, Saudi Arabia and Oman.

Notes to the financial statements *(continued)*

22 Notes to the cash flow statement

	2016 £000	2015 £000
Reconciliation of operating profit to net cash flow from operating activities		
Profit for the financial year	**30,035**	12,978
Tax on profit on ordinary activities	**13,187**	11,556
Net interest expense	**755**	823
Income from interest in associated undertakings and joint ventures	**(28,356)**	(20,535)
Operating profit	**15,621**	4,822
Amortisation of intangible assets	**1,367**	824
Impairment of intangible assets	**80**	870
Depreciation of tangible assets	**10,639**	10,415
Impairment of tangible assets	**1,177**	6,894
Loss on disposal of tangible assets	**800**	1,145
Increase in stock	**(6,307)**	(3,238)
Increase in debtors	**(5,115)**	(2,301)
Increase in creditors	**11,200**	10,486
Exchange differences	**(2,178)**	5,409
Net cash flow from operating activities	**27,284**	35,326

23 Commitments and contingent liabilities

a) The Group had capital commitments of £nil as at 30 June 2016 *(£2,055,000 as at 30 June 2015)*. The Company had no capital commitments at 30 June 2016 or 30 June 2015.

b) The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and Buildings		Other	
Group	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Operating leases which expire:				
Within one year	**46,129**	36,844	**201**	157
In the second to fifth years inclusive	**113,255**	92,599	**402**	37
Over five years	**44,381**	39,695	**-**	-
	203,765	169,138	**603**	194

Company

The Company had no non-cancellable operating leases as at 30 June 2016 *(2015: none)*.

Notes to the financial statements *(continued)*

23 Commitments and contingent liabilities *(continued)*

c) Contingent liabilities

Group

A number of the companies within the Group form part of the security guaranteeing the borrowings of some of its fellow group undertakings as part of the Barclays revolving credit facility *(see note 16)*. The guarantee has been secured by way of fixed and floating charges over the assets of Lush Cosmetics Limited, Lush Limited, Lush Retail Limited, Lush Manufacturing Limited, Lush B.V, Lush GmbH, Lush SASU and Lush Asia Limited. The amount of borrowings outstanding at 30 June 2016 was £2,321,000 *(2015: £nil)*.

Exemption from audit

Lush Cosmetics Limited has guaranteed the liabilities of the following subsidiary in order that they qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 30 June 2016.

- Lush Distribution Limited

The Group guarantees the liabilities of the relevant company at the end of the year until those liabilities have been settled in full. The contingent liability at the year end was £16,000 *(2015: £10,000)*.

24 Pension scheme

The Group operates a number of defined contribution pension schemes for the benefit of the directors and employees. The assets of the schemes are administered by trustees in funds independent from those of the Group. See note 5 for payments made during the year. There is a net accrual amount outstanding of £295,000 at the year end *(2015: £87,000)*.

Lush Italia SRL has an accrual for £97,000 *(2015: £102,000)* 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 employee retires or leaves employment. Lush SASU has an accrual of £3,000 *(2015: £2,000)* at the year end, which relates to the arrangement under French law requiring an amount to be paid to employees that reach retirement age whilst employed by the company.

25 Related party disclosures

During the year, the Group paid rent for properties jointly owned by Mr M Constantine and Mrs M Constantine, amounting to £80,000 *(2015: £99,000)*. Mr M Constantine is a director of Lush Cosmetics Limited, Lush Limited, Lush Retail Limited and Lush Manufacturing Limited. Mrs M Constantine is a director of Lush Cosmetics Limited, Lush Limited and Lush Manufacturing Limited.

At 30 June 2016, the Company owed £nil *(2015: £1,350,000)* to Mrs E Bennett as part of the agreement to purchase her shares in the Company in 2014. During the year, interest of £nil *(2015: £61,000)* was payable on this loan.

Transactions and balances with principal joint ventures, associates and other related parties are as follows:

	Sales	Sales	**Royalties received/ (paid)**	Royalties received/ (paid)	**Recharges**	Recharges	**Balance debit/ (credit)**	Balance debit/ (credit)
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Lush Handmade Cosmetics Limited	**29,135**	20,462	-	-	**(3)**	26	**1,824**	1,905
Lush US Inc	-	-	-	-	**13**	132	**1**	2,489
Lush Russia Limited Liability Company	**3,401**	4,046	**328**	417	**4**	33	**(904)**	476
Yulshimhee Co. Limited	**5,098**	3,692	**1,200**	461	**373**	292	**852**	565
Lush Switzerland AG	**2,274**	1,867	**262**	220	**27**	22	**180**	136
Cosmetic Warriors Limited	**13**	28	**(11,719)**	(8,853)	**(10)**	1,639	**(1,333)**	(5,089)
Ping Pong Sourcing Limited	-	-	-	-	-	-	**(417)**	(417)

Cosmetic Warriors Limited and Ping Pong Sourcing Limited, are considered to be related parties as they are under common ownership.

Recharges with related parties include costs in respect of payroll costs and stock delivery and wastage costs borne by the Group on behalf of the related parties.

Notes to the financial statements *(continued)*

26 Ultimate controlling party

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

27 Subsidiaries, joint ventures and associates

At 30 June 2016, other than the shares held in Lush Ltd, the Company did not hold any shares directly in any other subsidiaries or associated companies. Through its 100% shareholding in Lush Ltd, the Company indirectly holds the following investments in subsidiary and associated companies:

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Group	Nature of business
Subsidiary undertakings				
Lush Limited	England	Ordinary	100%	Manufacturer of cosmetic products
Lush Retail Limited	England	Ordinary	87%	Retailer of cosmetic products
Lush Dublin Limited	Republic of Ireland	Ordinary	87%	Retailer of cosmetic products
Lush Manufacturing Limited	England	Ordinary	100%	Manufacturer of cosmetic products
Lush (New Zealand) Limited	New Zealand	Ordinary	100%	Retailer of cosmetic products
Lush Australasia Manufacturing Pty Limited	Australia	Ordinary	100%	Manufacturer of cosmetic products
Lush Australasia Retail Pty Limited	Australia	Ordinary	100%	Retailer of cosmetic products
Lush Japan KK	Japan	Ordinary	100%	Manufacturer and retailer of cosmetic products
Lush B.V.	Netherlands	Ordinary	100%	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 Swedru Ghana Limited	Ghana	Ordinary	80%	Manufacturer of raw materials products
Nature & You Lda	Portugal	Ordinary	100%	Retailer of cosmetic products
Lush Trading Est.	Saudi Arabia	Ordinary	75%	Retailer of cosmetic products

Notes to the financial statements *(continued)*

27 Subsidiaries, joint ventures and associates *(continued)*

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Group	Nature of business
Subsidiary undertakings (continued)				
Lush SASU	France	Ordinary	100%	Retailer of cosmetic products
Lush NV	Belgium	Ordinary	100%	Retailer of cosmetic products
Lush Austria GmbH	Austria	Ordinary	100%	Retailer of cosmetic products
Lush Sweden AB	Sweden	Ordinary	100%	Retailer of cosmetic products
Lush Italia SRL	Italy	Ordinary	100%	Retailer of cosmetic products
YRC Limited	Dubai	Ordinary	75%	Holding company
Lush Fresh Handmade Cosmetics LLC	Dubai	Ordinary	75%	Retailer of cosmetic products
Seebimeri OU	Estonia	Ordinary	50%	Retailer of cosmetic products
Lush Asia Limited	Hong Kong	Ordinary	100%	Retailer of cosmetic products
B Never too Busy to be Beautiful Limited	England	Ordinary	75%	Dormant
LCM (Lush Chile Manufacturing) SA	Chile	Ordinary	99%	Dormant
Lush Hungary Kft	Hungary	Ordinary	100%	Retailer of cosmetic products
Lush Fresh Handmade Cosmetics D.O.O	Serbia	Ordinary	50%	Dormant
Lush Bulgaria O.D.D	Bulgaria	Ordinary	50%	Retailer of cosmetic products
Lush Baltia SIA	Latvia	Ordinary	50%	Retailer of cosmetic products
SWIL AG	Switzerland	Ordinary	100%	Holding company
Lush Manufacktura DOO	Croatia	Ordinary	100%	Manufacturer of cosmetic products
SWIL Brasil Comerica de Cosmetics e Produtos de Beleza Ltda	Brazil	Ordinary	99%	Retailer of cosmetic products

Notes to the financial statements *(continued)*

27 Subsidiaries, joint ventures and associates *(continued)*

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Group	Nature of business
Subsidiary undertakings (continued)				
LIWS Industria de Cosmeticos Ltda	Brazil	Ordinary	99%	Manufacturer of cosmetic products
UAB LB-LIT	Lithuania	Ordinary	50%	Retailer of cosmetic products
Lush Distribution Limited	England	Ordinary	87%	Distribution of cosmetic products
Lush Manufacturing GmbH	Germany	Ordinary	100%	Manufacturer of cosmetic products
Lush Peru SAC	Peru	Ordinary	90%	Manufacturer of cosmetic products

The following subsidiary undertakings have been added in the year ended 30 June 2016.

Lush Muscat LLC	Oman	Ordinary	100%	Retailer of cosmetic products

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Group	Nature of business
Joint Ventures				
Lush Handmade Cosmetics Limited	Canada	Class A	43.96%	Manufacturer and retailer of cosmetic products
Lush USA Inc.	USA	Ordinary	50.5%	Retailer of cosmetic products
Lush Internet Inc.	USA	Ordinary	50.5%	Retailer of cosmetic products
Associate undertakings				
Lush Russia Limited Liability Company	Russia	Ordinary	35%	Retailer of cosmetic Products
Yulshimhee Co. Limited	South Korea	Ordinary	25%	Retailer of cosmetic products
Lush Switzerland AG	Switzerland	Ordinary	35%	Retailer of cosmetic products
Lush Kazakhstan LLC	Kazakhstan	Ordinary	35%	Retailer of cosmetic products

Notes to the financial statements *(continued)*

27 Subsidiaries, joint ventures and associates *(continued)*

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Group	Nature of business
Associates (continued)				
Prosrednik Promet D.O.O.	Croatia	Ordinary	35%	Retailer of cosmetic products
Lush Ukraine TZOV	Ukraine	Ordinary	35%	Retailer of cosmetic products
Fersk Kosmetikk AS	Norway	Ordinary	35%	Retailer of cosmetic products
Lush Panama Inc	Panama	Ordinary	35%	Retailer of cosmetic products
UKM Cosmeticos Naturales, S.A. de C.V	Mexico	Ordinary	35%	Retailer of cosmetic products
Sash Natural Pte. Ltd	Singapore	Ordinary	35%	Retailer of cosmetic products
Green Bubbles Cosmetics Proprietary Limited	South Africa	Ordinary	35%	Retailer of cosmetic products

28 Post balance sheet events

On the 1st August 2016 the Group entered into a new three year revolving credit facility with Barclays Bank, replacing the facility in Note 16. Management opted to reduce the maximum facility available to £35m, with an interest rate margin of 1.65% above LIBOR (or the equivalent with a currency other than sterling). Cross guarantees exist between Lush Cosmetics Limited, Lush Ltd, Lush Retail Limited, Lush Manufacturing Limited, Lush SASU, Lush GmbH, Lush B.V. and Lush Japan KK.

On the 18th August 2016 the Company entered into an agreement to provide a guarantee to Sumitomo Mitsui Banking Corporation in respect of Lush Japan KK's obligations under a Y1,000,000,000 loan facility taken out with this bank. The expiry date of the guarantee is 29th December 2017.

Notes to the financial statements *(continued)*

29 Transition to FRS 102

This is the first year that the Group and Company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 30 June 2015 and the total equity as at 1 July 2014 and 30 June 2015 between UK GAAP as previously reported and FRS 102.

a) Consolidated balance sheet

	Note	At 1 July 2014			At 30 June 2015		
		As previously stated	Effect of transition	FRS 102 (as restated)	As previously stated	Effect of transition	FRS 102 (as restated)
		£000	£000	£000	£000	£000	£000
Fixed assets							
Intangible assets	*E, F*	4,475	9,675	**14,150**	4,060	10,772	**14,832**
Tangible assets	*E, F*	36,204	(9,397)	**26,807**	34,332	(10,398)	**23,934**
Investments in joint venture undertakings		8,741	-	**8,741**	16,797	-	**16,797**
Investments in associate undertakings	*G*	2,424	87	**2,511**	2,408	99	**2,507**
		51,844	365	**52,209**	57,597	473	**58,070**
Current assets							
Stocks		17,030	-	**17,030**	20,268	-	**20,268**
Debtors: amounts falling due within one year	*A,D,F*	17,919	828	**18,747**	20,427	1,015	**21,442**
amounts falling due after more than one year		9,311	-	**9,311**	9,669	-	**9,669**
Cash at bank and in hand		19,991	-	**19,991**	21,301	-	**21,301**
		64,251	828	**65,079**	71,665	1,015	**72,680**
Creditors: amounts falling due within one year	*B,C,D,F*	(33,798)	(2,177)	**(35,975)**	(43,591)	(2,373)	**(45,964)**
Net current assets		30,453	(1,349)	**29,104**	28,074	(1,358)	**26,716**
Total assets less current liabilities		82,297	(984)	**81,313**	85,671	(885)	**84,786**
Creditors: amounts falling due after more than one year		(10,323)	-	**(10,323)**	(183)	-	**(183)**
Provisions for liabilities		(1,426)	-	**(1,426)**	(2,136)	-	**(2,136)**
Net assets		70,548	(984)	**69,564**	83,352	(885)	**82,467**
Capital and reserves							
Called up share capital		8	-	**8**	8	-	**8**
Share premium account		987	-	**987**	987	-	**987**
Capital redemption reserve		3	-	**3**	3	-	**3**
Merger reserve		13,988	-	**13,988**	13,988	-	**13,988**
Other reserves		142	-	**142**	142	-	**142**
Retained earnings		55,730	(984)	**54,746**	66,611	(879)	**65,732**
Equity attributable to owners of the parent		70,858	(984)	**69,874**	81,739	(879)	**80,860**
Non-controlling interests	*B*	(310)	-	**(310)**	1,613	(6)	**1,607**
Total equity		70,548	(984)	**69,564**	83,352	(885)	**82,467**

Notes to the financial statements *(continued)*

29 Transition to FRS 102 *(continued)*

b) Consolidated profit and loss account

	Note	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
		Year ended 30 June 2015		
Group turnover		326,456	-	**326,456**
Cost of sales *(restated – see note 1 (b))*	*B,F*	(89,332)	(160)	**(89,492)**
Gross profit		237,124	(160)	**236,964**
Administrative expenses *(restated – see note 1 (b))*	*A, C, E, F*	(232,304)	162	**(232,142)**
Group EBITDA		24,162	(337)	**23,825**
Recurring Group depreciation and amortisation	*E, F*	(12,532)	339	**(12,193)**
Exceptional impairment of fixed assets		(6,810)	-	**(6,810)**
Group operating profit		4,820	2	**4,822**
Share of operating profit from joint ventures		19,582	-	**19,582**
Share of operating profit from associates	*G*	943	10	**953**
Net interest payable and similar charges - Group		(596)	-	**(596)**
- Joint ventures		(222)	-	**(222)**
- Associates	*G*	(7)	2	**(5)**
Profit on ordinary activities before taxation		24,520	14	**24,534**
Tax on profit on ordinary activities - Group	*D*	(4,589)	43	**(4,546)**
- Joint ventures		(6,806)	-	**(6,806)**
- Associates	*G*	(200)	(4)	**(204)**
Profit for the financial year		12,925	53	**12,978**
Profit attributable to:				
- Owners of the parent		11,068	59	**11,127**
- Non-controlling interests	*B*	1,857	(6)	**1,851**
Profit for the financial year		12,925	53	**12,978**

Notes to the financial statements *(continued)*

29 Transition to FRS 102 *(continued)*

c) Consolidated statement of comprehensive income

	Note	Year ended 30 June 2015 As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
Profit for the financial year	*A, B, C, D, E, F, G*	12,925	53	**12,978**
Other comprehensive income:				
Currency translation differences - Group	*A, B, C, D, E*	1,837	62	**1,899**
- Joint Ventures		(1,027)	-	**(1,027)**
- Associates		(393)	-	**(393)**
- Non-controlling interests		-	69	**69**
Other comprehensive income for the year		417	131	**548**
Total comprehensive income for the year		13,342	184	**13,526**

d) Consolidated statement of changes in equity

	Note	Year ended 30 June 2015 As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
Balance as at 1 July 2014	*A, C, D, E, G*	70,548	(984)	**69,564**
Profit for the year		12,925	53	**12,978**
Other comprehensive income for the year		417	131	**548**
Total comprehensive income for the year		13,342	184	**13,526**
Other movements through equity		(538)	(85)	**(623)**
Balance as at 30 June 2015		83,352	(885)	**82,467**

e) Company

There were no adjustments to the Company's previously reported result for the financial year ended 30 June 2015 or to total equity at 1 July 2014 or 30 June 2015 on transition to FRS 102 and accordingly no reconciliations have been prepared.

Notes to the financial statements *(continued)*

29 Transition to FRS 102 *(continued)*

f) Transition notes

A Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Group did not recognise these instruments in the financial statements. On transition to FRS 102 the Group has recognised the fair value of the outstanding forward foreign exchange contracts on the balance sheet; accordingly current assets of £523,000 were recognised at the transition date of 1 July 2014. A pre-tax gain of £135,000 was recognised in the profit and loss account for the year ended 30 June 2015 and current assets of £609,000 were recognised on the balance sheet as at 30 June 2015. A currency translation loss of £49,000 has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2016.

B Rent free period for operating leases

Under previous UK GAAP operating lease incentives, including rent free periods and fit out contributions, were spread over the period to the earliest break clause in the lease. FRS 102 requires that all such incentives should be spread over the lease period. The Group has taken advantage of the exemption for existing leases at the transition date to continue to recognise these leases on the same basis as previous UK GAAP. Accordingly the FRS 102 accounting policy has been applied to new operating leases entered into since 1 July 2014 and the operating lease charge has increased by £101,000 for the year to 30 June 2015, with a corresponding increase of £95,000 in the accrued lease liability and £6,000 decrease in the non-controlling interest balance at 30 June 2015.

C Employee benefits

FRS 102 requires all short term employee benefits to be charged to the profit and loss accounts as the employee service is received. This has resulted in the Group recognising an additional liability for holiday pay, and other short term benefits, of £1,628,000 at the transition date of 1 July 2014. In the year ended 30 June 2015 an additional net charge of £318,000 was recognised in the profit and loss account and the liability was £1,759,000 as at 30 June 2015. A currency translation gain of £187,000 has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2016.

D Deferred taxation

The impact on deferred taxation as a result of the adjustments discussed in this note was to decrease the net deferred tax asset by £423,000 at the transition date. A decrease in the tax charge of £43,000 was recognised in the profit and loss account for the year ended 30 June 2015 and a reduction in the net deferred tax asset of £343,000 were recognised on the balance sheet as at 30 June 2015. A currency translation gain of £37,000 has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2016.

E Key money revaluations

The Group has reclassified assets held as Key Money from tangible to intangible fixed assets on the date of transition.

At the date of transition, valuations were obtained from external third party valuers, in regards to the market value of the Key Money assets. Where the market value of the asset was greater than the carrying value of the asset, the amortisation previously charged on the asset under old UK GAAP was reversed such that the carrying value of the asset matched the market value of the asset, up to the original cost of the asset. As such the carrying value of the Key Money at 1 July 2014 has been reclassified and the carrying value in the balance sheet has been increased by £457,000, being recognised within equity at the transition date.

Subsequent to the transition date, key money is no longer being amortised, as management consider the value of the asset to be driven by the relevant market conditions, rather than the asset being consumed over the life of the lease. As such valuations have been made at the balance sheet reporting date to identify any impairment to the carrying value of the asset based on market value. As such for the year ended 30 June 2015 amortisation of £508,000 has been reversed through the profit and loss statement in the year and a further impairment of £222,000 to the carrying value of the key money has been recognised through the profit and loss account. Accordingly, an increase of £286,000 in the carrying value of the key money assets on the balance sheet has also been recognised. A currency translation loss of £140,000 has been recognised in the consolidated statement of comprehensive income for the year ended 30 June 2016.

Notes to the financial statements *(continued)*

29 Transition to FRS 102 *(continued)*

F Other balance sheet reclassifications

In addition to the transition adjustments identified above which affect profit for the financial year ended 30 June 2015, the following adjustments have arisen which have no effect on net equity or the profit and loss account but which have affected the presentation of these items on the balance sheet.

a) Computer software and website costs, with a net book value of £1,037,000 at 1 July 2014, has been reclassified from tangible to intangible fixed assets as required under FRS 102. This has no effect on the Group's net assets or profit for the year, except that the previous depreciation charge is now described as amortisation. The amount reclassified at 30 June 2015 was £1,757,000.

G *Associates*

As at the transition date, 1 July 2014, the Group has associates in a net liability position totalling £87,000. As required under FRS 102 the liability related to these associates has been adjusted against retained earnings as the losses of associates should only be recognised until the point at which the carrying amount of the investment is reduced to zero. The losses made by these associates in the year ended 30 June 2015 totalling £12,000 have been reversed, and the investment in associates balance at 30 June 2015 has subsequently been increased by £99,000.

H Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. This has had no effect on the final balance recognised within the cash flow statement for the Group.