

**Lush Cosmetics Limited**

Directors' report and consolidated  
financial statements  
Registered number 04162033  
30 June 2014

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## Strategic Report

### For the year ended 30 June 2014

The Directors present their Strategic Report on the Group for the year ended 30 June 2014.

### Principal Activities

The Group's principal activity is the manufacturing and retailing of fresh handmade cosmetics. The Group had retail outlets in 49 countries at the end of the year, being a combination of subsidiaries, joint venture and associated undertakings, and licensees. The Group's principal subsidiaries, joint ventures and associates are listed in Note 12 to the Accounts.

### Review of Business

#### Our Strategy

The Global vision we outlined for the business in February 2013 got off to a great start as we continue to focus on opening bigger, better stores in prime locations and on increasing online sales. We continue to look for prime sites and on opening beautiful spas in major cities; including establishing ourselves in the "Emerging Markets" of Hong Kong, Middle East and Brazil.

Our ongoing focus on improving the facilities for and standards of training for our dedicated staff along with our major investment this year on improving the communication of our core messages have also paid off in most cases, as it seems the public are increasingly understanding the importance of natural ingredients on their skin and appreciating our passion for producing the freshest possible, cruelty-free cosmetics with the minimal amounts of preservatives or packaging.

There also seems to be an increasing awareness of the importance of our ethics to consumers who are able to inform themselves about such things much more easily than ever before via the internet. Customers acknowledge the care we take in sourcing the best possible ingredients for our products and can now read about our buying stories and the suppliers we support on our website. They can read about our stringent non-Animal Testing policy and even about our Ethical Tax policy as we aim to be as transparent about our business as possible.

#### Summary Table

	2014	2013	Movement
	£000	£000	
		(Restated)*	
No of shops (Brand)	898	894	0.4%
No of shops (Group)	485	479	1.3%
Brand Turnover	454,129	419,886	8.2%
Group Turnover	282,467	280,220	0.8%
Group Operating profit	13,984	16,456	(15.0%)
Profit before tax	23,263	21,540	8.0%

\* When interpreting the figures in the financial statements and table above, it should be noted that we have changed the method of accounting for our North American businesses in Canada and the US. We are now using the joint venture method of accounting, taking our share (based on shareholding %) of profit after the Group operating profit line. We had previously been fully consolidating the US figures based on our 50.1% shareholding but following an updated review, we concluded that the substance of the arrangement is that we do not have operational control of this market.

Our reported Group turnover figures in our profit and loss account on page 11 no longer include the US turnover and our 2013 comparatives have been restated to reflect this new method of accounting.

## Strategic Report (continued)

### Shop Growth

We finished the financial year with the Lush brand covering 898 shops having opened 66 shops and closed 62. We opened fewer shops than in previous years but this is in line with our strategy of seeking sites in prime locations with higher turnover potential, making strategic relocations and closing loss making shops. We made good progress in our 'Emerging Markets' (Hong Kong, Middle East and Brazil) opening 3 more shops in Hong Kong, each with turnover potential in excess of £1m, and the year ended with our first opening in Brazil (a flagship shop/spa in a prime location in São Paulo) which is a market with great potential.

Shop growth was most prominent once again in the US which opened 25 shops and closed the year with 153 shops. There still remains significant growth potential in this market.

### Turnover

Total Brand turnover (across all shops and digital sites irrespective of shareholding and including licensees) of £454.1m is 8.2% higher than last year. The multi-national nature of the business means that currency fluctuations can distort the underlying trends. Excluding the impact of currency movements, total Brand turnover increased 15.2% on last year reflecting strong underlying like-for-like (LFL) growth of +9.1%, the full year effect of previous year shop openings, and the strategy of opening higher turnover shops.

Total Group turnover (across all subsidiary undertakings) of £282.5m is 0.8% higher than last year, the underlying increase being higher at 8.0% excluding the impact of currency movements.

LFL is one of our main Key Performance Indicators. LFL growth across all markets of +9.1% is the combination of +8.0% in our shops and +18.4% across our Digital outlets. In our 3 main markets which accounted for 58% of our total Brand turnover:

- 1) The US reported double-digit growth for the 5th consecutive year at +20.3% LFL.
- 2) The UK reported LFL growth in every month of the financial year and most importantly in the Christmas trading months of November and December reported +23.3% and +9.3% respectively. LFL for the full financial year was +17.4%.
- 3) Japan continued its LFL decline at -8.2% for the year (the last quarter of the year being more severe at -17.6%).

Total Group digital sales of £21.1m represent 7.5% of total sales (2013: 7.9%). Great progress was made in the Group digital strategy with the launch of the fully responsive lush.co.uk website at the end of March; in the final 3 months of the financial year this resulted in a 66% increase in online traffic and a 49% increase in LFL sales. The intention is to roll-out the front end of this website in other Group countries in the new financial year.

The positive sales performance seen in most of our markets is attributable to improved brand messaging, the continued development of our product range, our continued investment in shop refits, our campaigns on ethical, animal rights and environmental matters, and our investment in staff both from a remuneration perspective and training them to provide the best customer service on our products and the ethics that surrounds them. The effectiveness of our staff training was highlighted once again when our UK Company came top of the Which? High Street Survey, announced in May 2014 and top of a further Which? customer service survey across all UK industries in June 2014.

### Profit

Group operating profit (before our share of joint venture profits) shows a drop in profit from £16.5m to £14.0m. Increased profitability from our UK, Rest of Europe and Australasia companies was offset by a £5.6m decline in profit from our Japanese business (from £10.9m to £5.3m). We were very pleased to introduce a new Group profit share scheme for senior and long service employees (the impact of which was £2.8m), and pay £3.8m to charitable causes, an additional £0.9m on last year (for more detail refer to 'Charitable donations' in the Directors' Report). No dividends were paid or proposed during the year.

Steps are being taken to reverse the decline in Japan where a review of the business showed that there had been no reinvestment in the property portfolio for a number of years, the shop staff were underpaid and demotivated, and there had been no training on the underlying ethics and beliefs of the Lush brand.

## Strategic Report (continued)

After adding our share of joint venture and associated undertaking profit, profit before tax for the year increased from £21.5m to £23.3m, an increase of 8%. The recovery at PBT level reflects a significant 46% increase in our share of profit of the North American business, a result of the continued LFL growth in this market, strong sales in new shops and leverage of fixed costs.

### 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 before tax 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 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 +9.1% across all shops and digital outlets.

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.

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, including the important Christmas period, have continued the positive trend with LFL growth of +17.6% being a combination of +17.4% in the shops and +19.2% in our Digital sales. These figures are net of the continued decline in Japan which has recorded -15.6% LFL in the first half.

Our strategy remains focussed on ongoing product development, continued development of our Digital offering, selective new shops and relocations and the continued focus on our fundamental belief in ethical buying and minimal packaging.

A key element of our strategy has been to acquire a large store within London that can showcase our uniqueness amongst other retailers. To this end, we have acquired a 10,000 square foot store on Oxford Street in London's West End, Europe's busiest shopping street. The store is scheduled to be open by March 2015. If successful our intention is to find similar sites in other major cities worldwide.

### 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.

Economic and political climate – it is encouraging to see a marginal upturn in the UK and US economies during the year which has filtered through to increased retail spending by the public, and we also note the stagnant state of the Japan economy. Whilst we remain alert to any further downturns, we believe that the uniqueness of our products continues to distinguish us from the competition helped by the continued progression within product innovation.

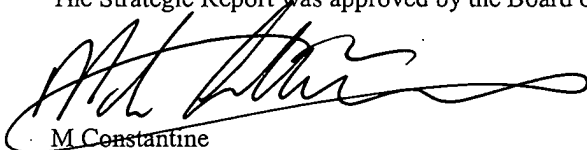
Supply of Raw Materials – we ensure that we have a wide range of ethical suppliers in a number of countries to reduce our exposure to climate change and political risks, including import restrictions. However as we continue to grow securing sufficient quantities of some of our most unique raw materials will be challenging. Our buying team mitigate this risk through forward planning and investments in our supply chain through initiatives such as the sustainable lush fund ('SLUSH') and buying projects like the Peace Colombian Cocoa Butter initiative.

## Strategic Report (continued)

Credit risk and liquidity – The Directors were pleased to secure a £40m 3 year revolving credit facility with Barclays which was signed on 19 July 2013. This facility provides sufficient headroom for further investment in our owned markets and to cope with our seasonal working capital requirements. Regular reviews of the Group's current and forecasted debt levels are undertaken along with Bank covenant compliance. 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 new bank facilities, 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.

The Strategic Report was approved by the Board of Directors on 8 January 2015 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 2014.

### Results and dividends

There was a profit for the financial year after taxation amounting to £12,567,000 (2013: £10,546,000). No dividends were paid or proposed during the year (2013: £nil).

### 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

A Gerrie (removed 15 December 2014)

K Bygrave (appointed 15 December 2014)

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 £5,141,000 and donated a total of £4,597,000 (2013: £3,095,000) to charities and other good causes; of this £3,824,000 was from Lush Group and associate companies (2013: £2,918,000).

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.

Lush raises most of its funds through the sale of Charity Pot body lotion, which is sold in various sizes both 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 twenty five countries: Australia, Austria, Belgium, Canada, Croatia, Finland, France, Germany, Holland, Hong Kong, Hungary, Ireland, Italy, Japan, Korea, Luxemburg, Mexico, New Zealand, Norway, Panama, Russia, Spain, Sweden, UK, and USA. We also sell limited edition products, which raise funds for specific charities and campaigns. In this financial year we created a scarf with Vivienne Westwood which raised £116,000 and was donated to climate change campaign groups.

In addition to Charity Pot and limited edition charity products, the UK also continued the Carbon Tax fund. This self-imposed tax is charged on staff's international flights at a rate of £50 per tonne of carbon dioxide emitted and the funds raised are donated to environmental groups. A total of £215,000 (2013: £117,000) in donations was made from Carbon Tax funds this year.

The sustainable Lush (SLush) fund grew considerably where a total of £616,000 was raised as a percentage of our buying budgets (2013: £500,000). Of this £557,000 (2013: £446,000) was donated through the fund, 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 new Charity Pot formula.

Our FUN product, where a percentage of global sales is donated to support children affected by the Fukushima disaster, raised £107,000 (2013: £93,000) for the FunD, of which £34,000 was donated (2013: £30,000), leaving a balance of £135,000.

## Directors' report (continued)

### Taxation and Country by Country Reporting

Following the publication of our first Ethical Tax Policy last year we also carried out a benchmarking exercise to make sure our internal pricing was demonstrably arm's length. Having enjoyed rapid international expansion in recent years we wanted to be able to show that our pricing policy was consistent and transparent for all markets and to make sure it was also fit for purpose for our future growth plans.

We also set ourselves the target of providing a country by country breakdown of the taxes incurred in the countries in which we operate and some key financial information alongside this to improve our transparency and enable the readers of our accounts to understand the results and effective tax rates – and perhaps encourage other businesses to follow suit ahead of country by country reporting becoming a legal requirement over the next 2 to 3 years. Here it is:-

Country of operation	Number of shops	Number of factories	Number of employees	Sales £ k	Staff costs £ k	Profit before tax £ k	Taxes charged £ k						Total taxes charged £ k
							Tax on profits	Effective tax rate	Premises tax	Payroll taxes	Stamp duty	Customs duty	
Japan	153	1	1,822	88,471	28,298	5,395	3,113	57.7%	90	3,857	-	110	7,170
UK	102	1	1,696	170,225	43,544	14,628	2,957	20.2%	4,599	7,088	132	368	15,144
Germany	45	-	277	17,785	6,528	(625)	4	-0.6%	-	1,099	-	-	1,103
France	41	-	270	19,396	6,220	191	46	24.1%	-	1,840	-	-	1,886
Italy	38	-	155	11,028	4,390	(1,341)	74	-5.5%	-	-	-	-	74
Australia	25	1	167	21,066	6,820	(1,842)	89	-4.8%	-	314	-	236	639
Spain	11	-	67	3,502	1,338	(850)	-	0.0%	20	365	-	-	385
New Zealand	9	-	46	3,215	811	59	-	0.0%	-	4	-	29	33
Sweden	9	-	39	3,915	1,593	118	-	0.0%	-	313	-	-	313
Holland	8	-	55	3,836	1,472	(572)	-	0.0%	17	429	-	-	446
Middle East	8	-	73	4,463	1,095	849	-	0.0%	-	-	-	-	-
Hong Kong	6	-	74	5,695	919	709	84	11.8%	-	-	-	-	84
Austria	6	-	43	3,291	1,359	145	3	2.1%	-	315	3	-	321
Croatia - Manufacturing	-	1	41	3,114	770	3	-	0.0%	3	99	-	-	102
Belgium	4	-	21	1,698	603	(238)	-	0.0%	-	14	-	-	14
Hungary	4	-	21	824	269	(77)	10	-13.2%	-	48	-	-	58
Latvia	4	-	18	181	104	(104)	-	0.0%	-	22	-	-	22
Ireland	3	-	22	1,607	466	(367)	-	0.0%	55	75	-	-	130
Bulgaria	2	-	11	171	82	(13)	-	0.0%	-	10	-	-	10
Portugal	2	-	21	516	241	(234)	-	0.0%	-	58	4	-	62
Brazil	1	-	17	77	603	(1,732)	-	0.0%	22	69	-	-	91
Czech Republic	1	-	11	786	136	140	32	22.9%	-	-	-	-	32
Luxembourg	1	-	5	497	121	100	29	29.0%	2	12	-	-	43
Estonia	1	-	7	146	64	(14)	-	0.0%	-	-	-	-	-
Lithuania	1	-	6	87	43	(48)	-	0.0%	-	-	-	-	-
Elimination and consolidation <sup>1</sup>				(83,126)		(1,124)	-	0.0%	-	-	-	-	-
Deferred tax consol <sup>2</sup>							783						783
Group subtotal	485	4	4,985	282,466	107,890	13,156	7,224	54.9%	4,808	16,031	139	743	28,945
Share of Joint Ventures PBT <sup>3</sup>						9,040	2,900	32.1%					
Share of Associates PBT						1,067	262	24.6%					
Non group subtotal	413	2		171,663		10,107	3,162	31.3%					
	898	6		454,129		23,263	10,386	44.6%					

Note 1: Elimination of manufacturing sales to group companies and consolidation adjustments.

Note 2: Write off of central deferred tax asset previously recognised on consolidation in respect of Lush Retail Limited.

Note 3: The Joint Ventures profit before tax relates to our share of the North American business.

In addition to the £28.9m Group tax charge, £26m of sales tax was collected from our customers during the year on behalf of Tax Authorities in the countries in which our Group subsidiaries operate.



## Directors' report (continued)

### Taxation and Country by Country Reporting (*continued*)

Note 8 to the accounts provides further details of the corporation tax charge for the year ended 30 June 2014 and refers to the write back of the deferred tax asset in Japan which has contributed to their extraordinarily high effective tax rate.

We believe that our investment in training and the more recent positive like for like sales growth in Europe and Australia will reduce the losses in some of the lower turnover countries as they develop. Our aim is for all markets to become profitable as the businesses become fully developed.

### Employees

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

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

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

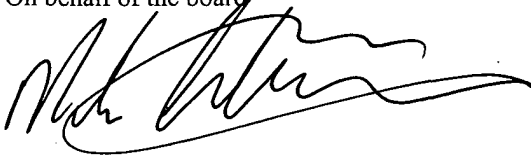
### Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

### Independent auditors

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

On behalf of the board



M Constantine  
Director

8 January 2015

29 High Street  
Poole  
Dorset  
BH15 1AB

## **Statement of Directors' responsibilities in respect of the Directors' report and the financial statements**

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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**

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### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

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### **What we have audited**

The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Lush Cosmetics Limited, comprise:

- the consolidated and Company balance sheet as at 30 June 2014;
- the consolidated profit and loss account and statement of group total recognised gains and losses for the year then ended;
- the consolidated cash flow statement 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 their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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 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.

In addition, we read all the financial and non-financial information in the Director's report and consolidated financial statements 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.

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## **Opinion on other matter prescribed by the Companies Act 2006**

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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.

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

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### **Other matters on which we are required to report by exception**

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

We have no exceptions to report arising from this responsibility.

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#### **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.

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 8, 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 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 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.

*Rosemary Shapland*

Rosemary Shapland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
19 January 2015

## Consolidated profit and loss account

for the year ended 30 June 2014

	Note	2014 £000	Restated 2013 £000
Turnover (including share of joint ventures' and associates' turnover)		365,728	350,118
Less: share of joint ventures' turnover	12	(66,934)	(53,465)
share of associates' turnover	12	(16,327)	(16,433)
<b>Group turnover</b>	2	<b>282,467</b>	<b>280,220</b>
Cost of sales		(203,104)	(199,383)
<b>Gross profit</b>		<b>79,363</b>	<b>80,837</b>
Administrative expenses		(65,379)	(64,381)
<b>Group EBITDA</b>		<b>25,047</b>	<b>27,817</b>
Group depreciation		(11,063)	(11,361)
<b>Group operating profit</b>	3-5	<b>13,984</b>	<b>16,456</b>
Share of operating profit from joint ventures		9,276	4,989
Share of operating profit from associates		1,088	857
Net interest payable and similar charges - Group	6	(828)	(464)
- Joint ventures	7	(236)	(274)
- Associates	7	(21)	(24)
<b>Profit on ordinary activities before taxation</b>		<b>23,263</b>	<b>21,540</b>
Tax on profit on ordinary activities - Group	8	(7,224)	(7,267)
- Joint ventures	8	(2,900)	(927)
- Associates	8	(262)	(193)
<b>Profit on ordinary activities after taxation</b>		<b>12,877</b>	<b>13,153</b>
Equity minority interest	20	(310)	(2,607)
<b>Profit for the financial year</b>	19	<b>12,567</b>	<b>10,546</b>

All results relate to continuing activities.

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

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

## Statement of group total recognised gains and losses

for the year ended 30 June 2014

	2014 £000	Restated 2013 £000
<b>Profit for the year</b>	<b>12,567</b>	<b>10,546</b>
Currency translation differences - Group	(2,423)	(2,977)
- Joint Ventures	(744)	(146)
- Associates	(185)	49
<b>Total recognised gains and losses relating to the year</b>	<b>9,215</b>	<b>7,472</b>

## Consolidated balance sheet

at 30 June 2014

	Note	2014 £000	2013 Restated £000
<b>Fixed assets</b>			
Intangible assets	10	4,475	4,790
Tangible assets	11	36,204	45,366
Investments in joint ventures	12		
- Share of gross assets		29,687	24,734
- Share of gross liabilities		(20,946)	(20,915)
Investments in associates	12	2,424	2,141
		<u>51,844</u>	<u>56,116</u>
<b>Current assets</b>			
Stocks	13	17,030	16,578
Debtors: amounts falling due within one year	14	17,919	24,045
amounts falling due after more than one year	14	9,311	9,616
Cash at bank and in hand		19,991	17,503
		<u>64,251</u>	<u>67,742</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(33,798)</u>	<u>(55,224)</u>
<b>Net current assets</b>		<u>30,453</u>	<u>12,518</u>
<b>Total assets less current liabilities</b>		<u>82,297</u>	<u>68,634</u>
<b>Creditors: amounts falling due after more than one year</b>	16	<u>(10,323)</u>	<u>(229)</u>
<b>Provisions for liabilities and charges</b>	17	<u>(1,426)</u>	<u>(1,392)</u>
<b>Net assets</b>		<u>70,548</u>	<u>67,013</u>
<b>Capital and reserves</b>			
Called up share capital	18	8	8
Share premium account	19	987	987
Capital redemption reserve	19	3	2
Merger reserve	19	13,988	-
Other reserves	19	142	142
Profit and loss account	19	55,730	53,440
		<u>70,858</u>	<u>54,579</u>
<b>Total shareholders' funds</b>	21	<u>70,858</u>	<u>54,579</u>
Minority interest	20	(310)	12,434
		<u>70,548</u>	<u>67,013</u>
<b>Total capital employed</b>		<u>70,548</u>	<u>67,013</u>

These financial statements on pages 11 to 36 were approved by the Board of Directors on 8 January 2015 and signed on its behalf by:

  
 M Constantine  
 Director

Lush Cosmetics Limited  
 Registered Number - 04162033

**Company balance sheet**  
*at 30 June 2014*

	<i>Note</i>	<b>2014</b>	<b>2013</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Investments	12	7,078	7,077
<b>Current assets</b>			
Debtors	14	2,624	16
Cash at bank and in hand		2	2
		<u>2,626</u>	<u>18</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(1,514)</u>	<u>(50)</u>
<b>Net current assets / (liabilities)</b>		<u>1,112</u>	<u>(32)</u>
<b>Total assets less current liabilities</b>		<u>8,190</u>	<u>7,045</u>
<b>Creditors: amounts falling due after more than one year</b>		<u>(1,350)</u>	<u>-</u>
<b>Net assets</b>		<u><u>6,840</u></u>	<u><u>7,045</u></u>
<b>Capital and reserves</b>			
Called up share capital	18	8	8
Share premium account	19	987	987
Capital redemption reserve	19	3	2
Other reserves	19	6,080	6,080
Profit and loss account	19	(238)	(32)
<b>Total shareholders' funds</b>	21	<u><u>6,840</u></u>	<u><u>7,045</u></u>

These financial statements on pages 11 to 36 were approved by the Board of Directors on 8 January 2015 and signed on its behalf by:



**M Constantine**  
*Director*

## Consolidated cash flow statement for the year ended 30 June 2014

		2014 £000	2013 Restated £000
Net cash inflow from operating activities	22	28,240	24,298
Dividends received from joint ventures and associates		732	786
Returns on investment and servicing of finance			
Dividends paid to minority interests		(890)	(1,524)
Interest received		28	76
Interest paid		(700)	(564)
Issue costs of new bank loan		(600)	-
Net cash outflow from returns on investments and servicing of finance		(2,162)	(2,012)
Taxation		(6,335)	(10,387)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(15,139)	(14,465)
Proceeds on disposal of tangible fixed assets		10,057	279
Net cash outflow for capital expenditure and financial investment		(5,082)	(14,186)
Acquisitions			
Investment in subsidiary undertakings	12	-	(761)
Net cash outflow for acquisitions		-	(761)
Financing			
Increase in borrowings	16	9,309	3,763
Repayment of bank loans	16	(12,059)	(9,652)
Purchase of own shares	18	(4,343)	-
Net cash outflow from financing		(7,093)	(5,889)
Increase/(decrease) in net cash		8,300	(8,151)
Reconciliation of net cash			
Net cash at 1 July (restated)		747	3,788
Increase/(decrease) in net cash		8,300	(8,151)
Movement in borrowings		3,350	5,889
Exchange adjustments		(1,049)	(779)
Non-cash movements		(155)	-
Net cash at 30 June	23	11,193	747



## Notes to the financial statements

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

#### *Basis of preparation*

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

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

A summary of the more important accounting policies which have been consistently applied is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

#### *Prior year restatement*

During the year, the directors have re-evaluated the relationship between the Group and its North American undertakings, Lush Handmade Cosmetics Limited, Lush USA Inc. and Lush Internet Inc. When taking into account the shareholding in, and the operational control of, the entities it has been considered appropriate to reclassify these entities as joint ventures.

Under FRS 9 these entities should be accounted for using the gross equity method. In previous years Lush USA Inc. and Lush Internet Inc. had been treated as subsidiaries and therefore were fully consolidated while Lush Handmade Cosmetics Limited was treated as an associate. Therefore the 2013 comparative figures have been restated using the gross equity method for all these entities, to correct the error.

#### *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 and consequently the financial statements continue to be prepared on a going concern basis.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiary, joint venture and associate undertakings made up to 30 June 2014. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

During 2001, the Company was incorporated and acquired the entire issued share capital of Lush Limited in a share for share exchange. The transaction 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 gross equity method of accounting.

Under the gross 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 joint ventures is included in the consolidated profit and loss account. The Group's share of their net assets is included in investments in the consolidated balances sheet, whilst both the aggregate gross assets and liabilities underlying the net amount included for investment has also been shown on the face of the balance sheet.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### *Associates*

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

#### *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 £205,872 (2013: loss of £31).

#### *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on subsidiary undertakings, joint ventures and associates in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life ranging from 5 to 20 years.

#### *Fixed assets and depreciation*

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

Freehold and leasehold buildings, including lease premiums	Period of lease
Fixtures, fittings and equipment	20%
Computer equipment	33%

No depreciation is provided on leasehold land.

#### *Investments*

Investments in subsidiary, joint venture and associates are included in the Company balance sheet at historic cost.

#### *Foreign currencies*

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

The assets and liabilities 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. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

#### *Stocks*

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

#### *Taxation*

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

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### *Taxation (continued)*

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

A deferred tax asset is recognised only if it can be regarded as more than likely that there will be suitable taxable profits from which the future reversal of the underlying timing differences are expected to reverse.

#### *Leases*

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

#### *Post retirement benefits*

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. 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.

#### *Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately 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.

#### *Cash and liquid resources*

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

#### *Turnover*

Turnover represents the amounts (excluding value added tax) derived from the sale of cosmetic products 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. Retail turnover is recognised on final sale to third parties, whilst turnover from digital sales and sales to joint ventures, associates and licencees is recognised on despatch of the product.

#### *Impairment of fixed assets and goodwill*

The carrying amounts of the Group's fixed assets and goodwill are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income 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.

#### *Calculation of recoverable amount*

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

## 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		Americas		Asia		Rest of World		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Turnover by origin</b>										
Total turnover	170,214	151,979	77	30	98,630	114,699	96,661	91,449	365,582	358,157
Inter-segment sales	(73,176)	(62,107)	-	-	(718)	-	(9,221)	(15,830)	(83,115)	(77,937)
	—	—	—	—	—	—	—	—	—	—
<b>Group turnover to third parties</b>	<b>97,038</b>	<b>89,872</b>	<b>77</b>	<b>30</b>	<b>97,912</b>	<b>114,699</b>	<b>87,440</b>	<b>75,619</b>	<b>282,467</b>	<b>280,220</b>
Share of joint ventures' turnover	-	-	66,934	53,465	-	-	-	-	66,934	53,465
Share of associates' turnover	-	-	330	341	4,908	4,168	11,089	11,924	16,327	16,433
	—	—	—	—	—	—	—	—	—	—
Total turnover (including share of joint ventures and associates)	97,038	89,872	67,341	53,836	102,820	118,867	98,529	87,543	365,728	350,118
	==	==	==	==	==	==	==	==	==	==
<b>Segment operating profit/(loss)</b>	<b>12,524</b>	<b>13,545</b>	<b>(1,632)</b>	<b>(143)</b>	<b>6,951</b>	<b>11,275</b>	<b>(3,945)</b>	<b>(7,643)</b>	<b>13,898</b>	<b>17,034</b>
Share of operating profit/(loss) in joint ventures	-	-	9,276	4,989	-	-	-	-	9,276	4,989
Share of operating profit/(loss) in associates	-	-	26	-	259	82	803	775	1,088	857
Net interest	659	326	(304)	(274)	1	142	(1,441)	(956)	(1,085)	(762)
	—	—	—	—	—	—	—	—	—	—
<b>Segment profit/(loss) before tax</b>	<b>13,183</b>	<b>13,871</b>	<b>7,366</b>	<b>4,572</b>	<b>7,211</b>	<b>11,499</b>	<b>(4,583)</b>	<b>(7,824)</b>	<b>23,177</b>	<b>22,118</b>
	==	==	==	==	==	==	==	==	==	==
Common income/(expenses)									86	(578)
									—	—
<b>Group profit before tax</b>									<b>23,263</b>	<b>21,540</b>
									==	==

The common income/(expenses) include amortisation on goodwill and other group adjustments arising on consolidation.

The share of operating profit in joint ventures and associates is the Group's share of the operating result in joint venture and associate companies.

	UK		Americas		Asia		Rest of World		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Group segment net assets/(liabilities)</b>	<b>59,249</b>	<b>46,024</b>	<b>(1,676)</b>	<b>(7)</b>	<b>24,200</b>	<b>23,070</b>	<b>(21,071)</b>	<b>(7,465)</b>	<b>60,702</b>	<b>61,622</b>
	==	==	==	==	==	==	==	==	==	==
Unallocated net liabilities									(1,319)	(569)
Joint ventures' net assets	-	-	8,741	3,819	-	-	-	-	8,741	3,819
Associates' net assets	-	-	(263)	-	907	682	1,780	1,459	2,424	2,141
	==	==	==	==	==	==	==	==	==	==
<b>Total net assets</b>									<b>70,548</b>	<b>67,013</b>
									==	==

The unallocated net liabilities relate to goodwill and other group adjustments arising on consolidation.

## Notes to the financial statements *(continued)*

### 2 Segmental analysis *(continued)*

Group turnover by business segment;	2014 £000	Restated 2013 £000
Retail sales	230,395	224,081
Internet sales	21,060	22,182
Manufacturing sales	31,012	33,957
	<u>282,467</u>	<u>280,220</u>

### 3 Operating profit

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

The profit on ordinary activities is stated after charging/(crediting):	2014 £000	Restated 2013 £000
Depreciation of tangible fixed assets:		
Owned	10,451	10,767
Impairment of tangible fixed assets - Owned	303	16
Amortisation and other amounts written off goodwill	309	578
(Profit)/loss on disposal of fixed assets	(22)	318
Operating lease rentals - Plant & Machinery	640	619
- Other	36,714	36,838
Foreign exchange loss	3,450	3,193
	<u></u>	<u></u>
<i>Auditors' remuneration:</i>	2014 £000	2013 £000
Audit of these financial statements	111	119
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries, joint ventures and associates pursuant to legislation	268	222
- Other services relating to taxation	-	90
- All other services	13	39
	<u></u>	<u></u>

### 4 Remuneration of directors

	2014 £000	2013 £000
Directors' emoluments	468	511

No contributions were made to money purchase pension schemes during the year (2013: £nil).

The aggregate of emoluments of the highest paid director during the year was £156,000 (2013: £178,000).

## 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	Restated
	2014	2013
Administration	562	471
Production	995	944
Retail	3,428	3,028
	<u>4,985</u>	<u>4,443</u>

The aggregate payroll costs of these persons were as follows:

	2014	Restated
	£000	2013 £000
Wages and salaries	94,002	91,342
Social security costs	12,558	12,015
Other pension costs	1,330	585
	<u>107,890</u>	<u>103,942</u>

The Company employs no staff.

### 6 Group interest and similar items

	2014	Restated
	£000	2013 £000
Interest payable on bank loans and overdrafts	(816)	(717)
Interest payable on other loans	(41)	-
Other interest payable	(43)	(29)
Amortisation of issue costs on bank loan	(155)	-
Bank interest receivable	28	75
Interest receivable from joint ventures and associates	199	207
	<u>(828)</u>	<u>(464)</u>
<b>Total group net interest payable</b>	<u>(828)</u>	<u>(464)</u>

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

	2014	Restated
	£000	2013 £000
<b>Joint Ventures</b>		
Interest payable on bank loans and overdraft	(141)	(142)
Other interest payable	(95)	(133)
Bank interest receivable	-	1
	<u>(236)</u>	<u>(274)</u>
<b>Group share of joint ventures' interest and similar items</b>	<u>(236)</u>	<u>(274)</u>
<b>Associates</b>		
Interest payable on bank loans and overdraft	(21)	(24)
	<u>(21)</u>	<u>(24)</u>
<b>Group share of associates' interest and similar items</b>	<u>(21)</u>	<u>(24)</u>

## Notes to the financial statements (continued)

### 8 Tax on profit on ordinary activities

	2014 £000	Restated 2013 £000
Analysis of charge in year		
<b>Current Tax</b>		
<i>UK current tax</i>		
UK current tax on income for the year	3,689	2,986
Adjustments in respect of prior periods	(395)	(488)
<i>Foreign current tax</i>		
Foreign tax	1,942	5,078
Share of joint ventures' current tax	2,900	927
Share of associates' current tax	262	193
<b>Total current tax</b>	<b>8,398</b>	<b>8,696</b>
<b>Deferred tax</b>		
Current year movement in timing differences	(72)	(309)
Impact of change in tax rate	20	-
Movements in recognition of deferred tax assets	2,040	-
<b>Total deferred tax</b>	<b>1,988</b>	<b>(309)</b>
<b>Tax on profit on ordinary activities</b>	<b>10,386</b>	<b>8,387</b>

The Group's effective tax rate for the year has increased from 38.9% (restated) to 44.6%. This is primarily due to the release of deferred tax assets recognised on timing differences, notably in Japan and in the UK.

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

The current tax charge for the year is higher (2013: higher) than the standard rate of corporation tax in the UK. The differences are explained below.

	2014 £000	Restated 2013 £000
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	23,263	21,540
<b>Current tax at 22.5% (2013: 23.75%)</b>	<b>5,234</b>	<b>5,116</b>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2,057	1,680
Non-taxable income	(500)	(776)
Depreciation for period in excess of capital allowances	66	110
Higher tax rates on overseas earnings	363	1,927
Unrelieved tax losses	1,573	1,127
Adjustments to tax charge in respect of prior periods	(395)	(488)
<b>Total current tax (see above)</b>	<b>8,398</b>	<b>8,696</b>

## Notes to the financial statements *(continued)*

### 9 Dividends

The dividends proposed and paid in 2014 were £nil per share (2013: £nil)

### 10 Intangible fixed assets

Group	Goodwill £000
<i>Cost</i>	
At beginning of year	10,470
Foreign exchange	(6)
	<hr/>
At end of year	10,464
	<hr/>
<i>Amortisation</i>	
At beginning of year	5,680
Charged in year	309
	<hr/>
At end of year	5,989
	<hr/>
<i>Net book value</i>	
At 30 June 2014	4,475
	<hr/>
At 30 June 2013	4,790
	<hr/>

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

	Acquired	Consideration	Goodwill arising	Shareholding at
	%	£000	£000	30 June 2014
				%
Lush Japan (see Note 24)	40.8	13,989	-	100
Lush Retail	0.8	-	-	87

On 23 October 2013, the remaining 75 shares held by minority shareholders in Lush Japan KK were purchased by Lush Cosmetics Limited via a share-swap in exchange for 984 shares in Lush Cosmetics Limited. These shares were then transferred to Lush Limited from Lush Cosmetics via a share-swap in exchange for 1,641 shares in Lush Limited.

The shareholding in Lush Retail Limited has increased as a result of the 95 £1 ordinary shares owned by Elizabeth Bennett being purchased by Lush Retail Limited and immediately cancelled.



## Notes to the financial statements (continued)

### 11 Tangible fixed assets

	Freehold and leasehold land and buildings £000	Fixtures, fittings and equipment £000	Computer equipment £000	Total £000
<b>Group</b>				
<i>Cost</i>				
At 1 July 2013 (restated)	21,587	73,441	7,688	102,716
Difference arising on exchange	(2,069)	(4,688)	(415)	(7,172)
Additions	2,588	10,628	1,923	15,139
Disposals	(9,453)	(5,332)	(698)	(15,483)
Reclassification	1,408	(1,978)	570	-
<b>At 30 June 2014</b>	<b>14,061</b>	<b>72,071</b>	<b>9,068</b>	<b>95,200</b>
<i>Depreciation</i>				
At 1 July 2013 (restated)	4,111	47,186	6,053	57,350
Difference arising on exchange	(267)	(3,062)	(330)	(3,659)
Provided in year	496	8,972	983	10,451
Impairment provision	49	254	-	303
On disposals	(21)	(4,766)	(662)	(5,449)
Reclassification	205	(682)	477	-
<b>At 30 June 2014</b>	<b>4,573</b>	<b>47,902</b>	<b>6,521</b>	<b>58,996</b>
<i>Net book value</i>				
<b>At 30 June 2014</b>	<b>9,488</b>	<b>24,169</b>	<b>2,547</b>	<b>36,204</b>
At 30 June 2013 (restated)	17,476	26,255	1,635	45,366

During the year management conducted an impairment review of all retail stores which had made a negative retail margin in the financial reporting year.

The review indicated that the reviewed stores' carrying amounts exceeded recoverable amounts by £303,000 (2013: £16,000) and consequently have been written down by this amount. The impairment loss has been recognised in administrative expenses in the profit and loss account.

The Company does not own any fixed assets.

### 12 Investments in subsidiaries and joint ventures

Group	Joint ventures £000	Associates £000
<i>Cost</i>		
At beginning of year (restated)	3,818	2,141
Exchange differences	(744)	(263)
Share of profit for year	6,140	805
Less dividends paid by joint ventures and associates	(473)	(259)
<b>At end of year</b>	<b>8,741</b>	<b>2,424</b>

## Notes to the financial statements *(continued)*

### 12 Fixed asset investments *(continued)*

Company	Shares in subsidiary and associated companies
	£000
Cost and net book value	
At 1 July 2013	7,077
Additions	1
At 30 June 2014	<u>7,078</u>

On 23 October 2013, the remaining 75 shares held by minority shareholders in Lush Japan KK were purchased by Lush Cosmetics Limited via a share-swap in exchange for 984 shares in Lush Cosmetics Limited. The ownership of the shares in Lush Japan KK shares was then transferred to Lush Limited in exchange for additional shares in Lush Limited. The transaction qualified for merger relief under the Companies Act 2006.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A list of principal subsidiary undertakings is given below. A full list of subsidiary undertakings and joint ventures as at 30 June 2014 will be annexed to the company's next annual return.

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Company	Proportion of shares and voting rights held by the Group	Nature of business
<b><i>Subsidiary undertakings</i></b>					
Lush Limited	England	Ordinary	100%	100%	Manufacturer of cosmetic products
Lush Retail Limited	England	Ordinary	0%	87%	Retailer of cosmetic products
Lush Manufacturing Limited	England	Ordinary	0%	100%	Manufacturer of cosmetic products
Lush Australasia Retail Pty Limited	Australia	Ordinary	0%	100%	Retailer of cosmetic products
Lush Japan KK	Japan	Ordinary	0%	100%	Manufacturer and retailer of cosmetic products
Lush GmbH	Germany	Ordinary	0%	100%	Retailer of cosmetic products
Lush SARL	France	Ordinary	0%	100%	Retailer of cosmetic products

## Notes to the financial statements (continued)

### 12 Fixed assets investments (continued)

	Profit/(loss) before tax for the year June 2014 £000	Profit/(loss) before tax for the year June 2013 £000	Aggregate capital and reserves as at 30 June 2014 £000	Aggregate capital and reserves as at 30 June 2013 £000
<i>Subsidiary undertakings</i>				
Lush Limited	5,384	6,352	37,893	23,733
Lush Retail Limited	144	(2,177)	1,880	(10,389)
Lush Manufacturing Limited	9,300	8,460	42,240	35,066
Lush Australasia Retail Pty Limited	(1,081)	(2,212)	(10,701)	(10,493)
Lush Japan KK	5,395	11,056	22,611	37,992
Lush GmbH	(625)	(1,090)	133	790
Lush SARL	191	(2,483)	(3,806)	(4,992)

The above subsidiary undertakings are all included within the consolidated financial statements.

A list of joint ventures and principal associates is given below.

	Country of incorporation	Class of share capital held	Proportion of shares and voting rights held by the Company	Proportion of shares and voting rights held by the Group	Nature of business
<i>Joint ventures</i>					
Lush Handmade Cosmetics Limited	Canada	Class A	0%	45.96%	Manufacturer and retailer of cosmetic products
Lush USA Inc.	USA	Ordinary	0%	50.5%	Retailer of cosmetic products
Lush Internet Inc.	USA	Ordinary	0%	50.5%	Retailer of cosmetic products
<i>Associate undertakings</i>					
Lush Russia Limited Liability Company	Russia	Ordinary	0%	35%	Retailer of cosmetic Products
Yulshimhee Co. Limited	South Korea	Ordinary	0%	25%	Retailer of cosmetic products

The companies listed above all have an accounting period end date of June with the exception of Lush Russia Limited Liability Company which has an accounting period end date of December.

## Notes to the financial statements *(continued)*

### 12 Fixed assets investments *(continued)*

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

The total of the Group's profit before taxation from interests in joint ventures was £9,040,000 (2013 restated: £4,715,000). The total of the Group's profit before taxation from interests in associates was £1,067,000 (2013 restated: £833,000).

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

	Joint ventures 2014 £000	Joint ventures 2013 Restated £000	Associates 2014 £000	Associates 2013 Restated £000
Share of turnover of joint ventures and associates	66,934	53,465	16,327	16,433
Share of assets				
Share of fixed assets	13,097	10,194	1,556	1,802
Share of current assets	16,590	14,540	2,909	3,014
	29,687	24,734	4,465	4,816
Share of liabilities				
Due within one year	(19,754)	(18,182)	(1,765)	(2,365)
Due after one year	(1,192)	(2,733)	(276)	(706)
	(20,946)	(20,915)	(2,041)	(3,071)
Total share of net assets	8,741	3,819	2,424	1,745
Shown as:				
Fixed asset investment			2,424	2,141
Provisions for associates (note 17)			-	(396)
			2,424	1,745

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

## Notes to the financial statements *(continued)*

### 13 Stocks

	2014 £000	Group Restated 2013 £000
Raw materials	11,002	10,907
Work in progress	461	487
Finished goods	5,567	5,184
	<u>17,030</u>	<u>16,578</u>

### 14 Debtors

	2014 £000	Group Restated 2013 £000
<b>Amounts falling due within one year:</b>		
Amounts owed by joint ventures	5,231	7,398
Amounts owed by associates and related parties	1,005	1,844
Other debtors	5,698	7,972
Prepayments and accrued income	5,538	4,276
Deferred taxation (see note 17)	447	2,555
	<u>17,919</u>	<u>24,045</u>
<b>Amounts falling due after more than one year:</b>		
Property deposits	9,311	9,616
	<u>27,230</u>	<u>33,661</u>
<b>Total debtors</b>		

	2014 £000	Company Restated 2013 £000
Amounts owed by group undertakings	<u>2,624</u>	<u>16</u>

Loans between group undertakings are repayable on demand and have interest charged at a rate of LIBOR + 3.75% per annum.

## Notes to the financial statements *(continued)*

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

	Group	Restated
	2014	2013
	£000	£000
Bank overdraft	16	4,788
Bank loans	-	11,896
Trade creditors	10,269	11,651
Amounts owed to associates and related parties	2,348	4,224
Corporation tax	1,317	2,246
VAT creditor	661	399
Other taxation and social security	2,252	2,897
Other creditors	7,784	7,518
Accruals and deferred income	9,151	9,605
	<u>33,798</u>	<u>55,224</u>

	Company	2013
	2014	£000
	£000	
Amounts owed to group undertakings	-	34
Other creditors	1,514	16
	<u>1,514</u>	<u>50</u>

## Notes to the financial statements *(continued)*

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

	Group	
	2014 £000	Restated 2013 £000
Bank loans	8,782	72
Other	1,541	157
	<u>10,323</u>	<u>229</u>
	<u>10,323</u>	<u>229</u>
	2014 £000	Restated 2013 £000
Bank loans		
Between one and two years	-	8
Between two and five years	8,782	23
Due after five years	-	41
	<u>8,782</u>	<u>72</u>
Within one year	-	11,896
	<u>8,782</u>	<u>11,968</u>
	<u>8,782</u>	<u>11,968</u>

The main bank loan arrangement at 30 June 2013 was a £12 million revolving credit facility of which €13.9 million (£11.9 million) was drawn down at 30 June 2013 by Lush BV. On 19 July 2013 this above agreement was superseded by a new £40 million revolving credit facility in the name of Lush Cosmetics Limited, expiring 3 years from that date. Cross guarantees exist between Lush Cosmetics Limited, Lush Limited, Lush Retail Limited, Lush Manufacturing Limited, Lush B.V, Lush GmbH and Lush SARL.

Issue costs totalling £600,000, arising on the above credit facility, have been capitalised. These issue costs are being allocated to the profit and loss account over the three year term of the facility. The total unamortised costs at 30 June 2014 totalled £445,000. These costs have been offset against the facility drawn down at this date of £9,227,000.

	Company	
	2014 £000	2013 £000
Other creditors	1,350	-
	<u>1,350</u>	<u>-</u>
	<u>1,350</u>	<u>-</u>

The long term creditor payable by the Company relates to a loan from Elizabeth Bennett, a previous shareholder of the Company, who sold her shares on 2 January 2014 (see Note 18). As part of this transaction Mrs Bennett loaned £2.7 million back to the Company. £1.35m of the loan is repayable on 1 January 2015 and is included in creditors falling due within one year, and the remaining payable on 1 January 2016. Interest is being charged on this loan at 3% per annum and has been accrued on a quarterly basis.

## Notes to the financial statements *(continued)*

### 17 Provisions for liabilities and charges

	Onerous lease provision £000	Dilapidation provision £000	Provision for associates £000	Total £000
At 1 July 2013 (restated)	202	794	396	1,392
Difference arising on exchange	-	(78)	-	(78)
Released during the year	-	(115)	(396)	(511)
Utilised during the year	(21)	-	-	(21)
Charged to the profit and loss account	-	644	-	644
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2014	181	1,245	-	1,426
	<hr/>	<hr/>	<hr/>	<hr/>

#### Onerous lease provisions

The onerous lease provision of £181,000 (2013: £202,000) 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. Future operating losses are not provided for.

#### Dilapidations provisions

The dilapidations provision of £1,245,000 (2013: £794,000) is expected to be utilised within 1 to 36 months, on termination of the leases.

	Deferred taxation asset £000
At 1 July 2013 (restated)	2,555
Charge to the profit and loss for the year	(1,968)
Change in tax rate	(20)
Foreign exchange adjustment	(120)
	<hr/>
At 30 June 2014	447
	<hr/>

The elements of the deferred taxation asset are as follows:

	2014 £000	Restated 2013 £000
Differences between accumulated depreciation and capital allowances	489	2,555
Other timing differences	(42)	-
	<hr/>	<hr/>
	447	2,555
	<hr/>	<hr/>

The Group has unutilised tax losses of £20,830,000 (2013: £17,986,000) at 30 June 2014. A deferred tax asset has not been recognised in respect of these losses due to uncertainty over their utilisation, giving rise to an unrecognised deferred tax asset of £5,822,000 (2013: £5,053,000).

#### UK corporation tax rate

The Finance Act 2013 included legislation to reduce the main rate of UK Corporation Tax from 23% to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. UK Deferred tax has been recognised at 20% being the rate substantively enacted at the balance sheet date, being the rate at which it is expected that the timing differences will unwind.



## Notes to the financial statements (continued)

### 18 Called up share capital

	2014 £000	2013 £000
<i>Allotted, called up and fully paid</i>		
8,319 (2013: 8,035) Ordinary shares of £1 each	<u>8</u>	<u>8</u>

On 23 October 2013 the Company issued 984 new shares to existing shareholders as part of a share for share exchange to obtain the remaining 40% of shares in Lush Japan KK from minority shareholders.

On 2 January 2014 the Company repurchased 700 ordinary shares of £1 each for a consideration of £4,342,500. These shares were immediately cancelled.

### 19 Reserves

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Other reserves £000	Profit and loss account £000
<b>Group</b>					
At 1 July 2013 (Restated)	987	2	-	142	53,440
Arising on exchange differences - Group	-	-	-	-	(2,423)
- Joint Ventures	-	-	-	-	(744)
- Associates	-	-	-	-	(185)
Purchase of own shares (see note 18)	-	1	-	-	(4,343)
Movement in minority interests	-	-	-	-	(2,582)
Profit for the financial year	-	-	-	-	12,567
Share for share exchange	-	-	13,988	-	-
<b>At 30 June 2014</b>	<u>987</u>	<u>3</u>	<u>13,988</u>	<u>142</u>	<u>55,730</u>

The merger reserve has arisen on the purchase of the Japan share-swap (see Note 12 for explanation). The transaction qualified for merger relief under the Companies Act 2006, therefore the difference between the nominal value of the shares issued in Lush Cosmetics Limited and the value of the investment applied to the Lush Japan shares has been accounted for in the merger reserve.

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
<b>Company</b>				
At 1 July 2013	987	2	6,080	(32)
Loss for the financial year	-	-	-	(206)
Dividends receivable	-	-	-	4,343
Purchase of own shares (see note 18)	-	1	-	(4,343)
<b>At 30 June 2014</b>	<u>987</u>	<u>3</u>	<u>6,080</u>	<u>(238)</u>

## Notes to the financial statements *(continued)*

### 20 Equity minority interest

The minority interest in the balance sheet is analysed as follows:

	2014 £000	Restated 2013 £000
Lush Retail Limited	154	(1,495)
Lush Japan KK	-	15,484
YRC Limited	566	376
Lush Australasia Retail Pty Limited	-	(734)
Lush Australasia Manufacturing Pty Limited	-	(15)
Lush (New Zealand) Pty Limited	-	(190)
Seebimeri OU	(45)	(41)
B Never too Busy to be Beautiful Limited	(866)	(866)
Lush Fresh Handmade Cosmetics D.O.O	(1)	(23)
Lush Bulgaria O.D.D	(1)	(14)
Lush Baltia	(85)	(38)
LB-LIT UAB	(32)	(10)
	<u>(310)</u>	<u>12,434</u>

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

	2014 £000	Restated 2013 £000
Lush Retail Limited	20	(298)
Lush Japan KK	86	3,012
YRC Limited	272	189
Lush Australasia Retail Pty Limited	-	(155)
Lush Australasia Manufacturing Pty Limited	-	(21)
Lush (New Zealand) Pty Limited	-	(27)
Seebimeri OU	(7)	(5)
Lush Fresh Handmade Cosmetics D.O.O	22	(49)
Lush Bulgaria O.D.D	(7)	(11)
Lush Baltia	(52)	(17)
LB-LIT UAB	(24)	(11)
	<u>310</u>	<u>2,607</u>

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

	2014 £000	Restated 2013 £000
At 1 July	12,434	17,143
On acquisition of minority interest	(13,988)	(1,835)
Profit and loss account	310	2,607
Dividends paid to minority shareholders	(890)	(1,524)
Foreign exchange movement	(758)	(3,455)
Capital injection	2,582	(502)
	<u>(310)</u>	<u>12,434</u>

## Notes to the financial statements *(continued)*

### 21 Reconciliation of movements in total shareholders' funds

	2014 £000	Restated 2013 £000
<b>Group</b>		
Opening shareholders' funds (restated)	54,579	47,107
Profit for the financial year	12,567	10,546
Arising on exchange - Group	(2,423)	(2,977)
- Joint ventures	(744)	(146)
- Associates	(185)	49
Purchase of own shares	(4,342)	-
Movement in minority interests	(2,582)	-
Share for share exchange	13,988	-
	<hr/>	<hr/>
Net increase in shareholders' funds	16,279	7,472
	<hr/>	<hr/>
Closing shareholders' funds	70,858	54,579
	<hr/> <hr/>	<hr/> <hr/>
	2014 £000	2013 £000
<b>Company</b>		
Result for the financial year	(206)	-
Dividends receivable	4,343	-
Purchase of own shares	(4,342)	-
	<hr/>	<hr/>
Net decrease in shareholders' funds	(205)	-
Opening shareholders' funds	7,045	7,045
	<hr/>	<hr/>
Closing shareholders' funds	6,840	7,045
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements *(continued)*

### 22 Analysis of cash flows

	2014 £000	Restated 2013 £000
<b>Reconciliation of operating profit to net cash flow from operating activities</b>		
Operating profit	13,984	16,456
Depreciation, amortisation and impairment charges	11,063	11,361
(Profit) / loss on disposal of tangible fixed assets	(22)	318
(Increase) in stock	(452)	(1,905)
Decrease in debtors	4,585	3,230
(Decrease) / increase in creditors	(2,275)	641
Exchange differences	1,357	(5,803)
	<u>28,240</u>	<u>24,298</u>

### 23 Analysis of net cash

	Restated At 1 July 2013 £000	Cash flow £000	Non-cash changes £000	Exchange rate £000	At 30 June 2014 £000
Cash at bank and in hand	17,503	3,528	-	(1,040)	19,991
Overdrafts	(4,788)	4,772	-	-	(16)
	<u>12,715</u>	<u>8,300</u>	<u>-</u>	<u>(1,040)</u>	<u>19,975</u>
Debt due after one year	(72)	(8,637)	(155)	82	(8,782)
Debt due within one year	(11,896)	11,987	-	(91)	-
	<u>747</u>	<u>11,650</u>	<u>(155)</u>	<u>(1,049)</u>	<u>11,193</u>

## Notes to the financial statements (continued)

### 24 Acquisitions and Disposals

On the 23 October 2013, the remaining 75 shares held by minority shareholders in Lush Japan KK were purchased by Lush Cosmetics Limited via a share-swap. The ownership of these shares in Lush Japan KK was then transferred to Lush Limited in exchange for new shares issued in Lush Limited. This increased the shareholding in Lush Japan KK from 59.24% to 100%. The transaction qualified for merger relief under the Companies Act 2006 and the consideration of the shares purchased in Japan has been based on the fair value of the net assets purchased.

The Lush Japan KK balance sheet acquired has been set out below.

	Book Value £000	Other £000	Fair Value £000
Tangible fixed asset	16,628	-	16,628
Stocks	8,489	-	8,489
Debtors	14,740	-	14,740
Taxation - Deferred	1,475	(952)	523
Cash	4,684	-	4,684
Creditors falling due within less than one year	(9,378)	-	(9,378)
Taxation - Current	(845)	-	(845)
Provisions	(521)	-	(521)
Net assets on acquisition	35,271	(952)	34,319
% of net assets acquired			13,988
Consideration – satisfied by shares issued in Lush Cosmetics Limited			13,988
Goodwill			-

The book values of the assets and liabilities have been taken from the management accounts of Lush Japan KK at 31 October 2013, at the actual exchange rates on that date. The fair value adjustment of £952,000 relates to an adjustment to derecognise a proportion of the deferred tax asset, resulting from a review performed at 30 June 2014 indicating that there were no longer sufficient taxable profits to support the asset going forward.

### 25 Commitments and contingent liabilities

a) The Group had capital commitments of £739,000 as at 30 June 2014 (£553,434 as at 30 June 2013). The Company had no capital commitments at 30 June 2014 or 30 June 2013.

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

	Land and Buildings		Other	
	2014	Restated 2013	2014	Restated 2013
Group	£000	£000	£000	£000
Operating leases which expire:				
Within one year	13,414	9,112	203	89
In the second to fifth years inclusive	17,441	15,100	117	252
Over five years	7,698	7,747	-	-
	38,553	31,959	320	341

## Notes to the financial statements (continued)

### 26 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 are no outstanding amounts at the year end (2013: £nil).

Lush Italia SRL has an accrual for £92,486 (2013: £38,925) 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.

### 27 Related party disclosures

During the year, the Group paid rent for properties jointly owned by Mr M Constantine, Mrs M Constantine and Mrs E Bennett, amounting to £124,000 (2013: £71,500). 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. Mrs E Bennett resigned as a director of Lush Retail Limited during the year.

During the year, the Company loaned £2,700,000 (2013: £nil) to Mrs E Bennett as part of the agreement to purchase her shares in the Company. During the year, interest of £41,000 (2013: £nil) was paid on this loan.

During the year the Group made royalty payments of £2,337,000 (2013: £2,178,000) to Cosmetic Warriors Limited, a company under common control. At the balance sheet date there is £2,223,000 (2013: £1,605,000) payable to Cosmetic Warriors Limited

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

	Purchases	Restated Purchases	Sales	Restated Sales	Balance	Restated Balance
	2014	2013	2014	2013	2014	2013
	£000	£000	£000	£000	£000	£000
Lush Handmade Cosmetics Limited	-	-	12,013	10,856	1,627	1,194
Lush US Inc	-	-	-	-	3,604	6,148
Lush Russia Limited Liability Company	-	-	4,823	5,524	256	483
Yulshimhee Co. Limited	-	-	3,163	2,749	230	177
HKLB Corporation Limited	-	-	-	-	-	(2,510)
Lefoc Limited	-	-	-	-	-	(4,299)
Lancelot Trading Limited	4,531	8,840	4,552	9,071	-	71
Galahad Trading Limited	1,447	1,619	-	-	-	(158)

HKLB Corporation Limited, Lefoc Limited, Lancelot Trading Limited and Galahad Trading Limited are considered to be related parties as they are under common ownership.

### 28 Ultimate controlling party

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

### 29 Derivatives

The Group has entered into forward contracts against sterling, the fair value of which is a total unrealised gain of £522,569 as at 30 June 2014 (2013: unrealised loss of £194,000).