Lush Cosmetics Limited

Annual report and consolidated financial statements
Registered number 04162033
30 June 2017

Fair Tax 2017-18

Contents

Strategic Report

For the year ended 30 June 2017

The Directors present their Strategic Report on Lush Cosmetics Limited (the "Company") and its subsidiaries, joint ventures and associates (together, the "Group") for the year ended 30 June 2017.

Principal Activities

The Group's principal activity is the inventing, manufacturing and retailing of fresh handmade cosmetics.

At the end of the year, the Lush Brand operated through retail outlets in 49 countries and manufacturing facilities in 7 countries through its subsidiaries, joint ventures, associates and licensees. The Group's subsidiaries, joint ventures and associates are listed in Note 27 to the accounts.

Review of Business

Results overview

	2017	2016	Movement
No. of shops (Brand)	**932**	928	4
No. of shops (Group)	**458**	475	(17)
Brand Turnover (£'000) (unaudited)	**995,047**	729,050[1]	265,997
Group Turnover (£'000)	**497,788**	394,947	102,841
Group operating profit (£'000)	**22,695**	15,621	7,074
Group profit before tax (£'000)	**73,482**	43,222	30,260

[1] The 2016 Brand Turnover figure has been restated from the figure of £723,250,000 disclosed in the prior year accounts to reflect the sales made by franchisee shops.

For the purpose of this annual report, the following definitions have been used;

- 'Brand' figures include the Company and all subsidiaries, joint ventures, associates, licensees and franchisees.
- 'Group' figures include the Company and its subsidiaries. Where disclosing profit before tax and net asset figures this also includes the Group's share of joint ventures and associates as defined in Note 1 (d).

We were delighted once again to record a significant increase in our Brand turnover which came tantalisingly close to reaching the £1billion landmark. Total Brand turnover (across all shops and digital sites irrespective of shareholding and including licensees) of £995.0m is 36.5% higher than last year, reducing to 19.1% growth once the impact of currency movements is excluded. The sales growth reflects strong like-for-like (LFL) growth of +14.0% and the continued strategy of opening and relocating to larger shops in better sites with greater turnover potential. We did experience a drop in our LFL growth in the second half of the financial year (from 18.6% in the first half to 8.5% in the second half).

Total Group turnover (across all subsidiary undertakings) of £497.8m is 26.0% higher than last year, the underlying increase being lower at 11.7% excluding the impact of currency movements. LFL growth within our Group markets was +10.4%.

Group operating profit of £22.7m is £7.1m and 45.3% higher than last year. The improvement is due to a significant reduction in our Japan losses (from £10.3m to £4.2m) as we continue to work on bringing this market back to profitability, whilst our UK Retail business improved its profits by £4.7m helped by a +12.2% LFL increase during the year. However, our first full year of manufacturing in Germany incurred greater start-up losses than we had hoped and in Hong Kong we continued to experience a reduction in visitor numbers and have prudently made a £4.4m provision against the carrying value of assets and remaining lease liability of our Soho Spa store.

Strategic Report *(continued)*

Results overview (continued)

After including our share of profits made in our joint ventures and associate undertakings, profit before tax has increased by 70.0% on last year, from £43.2m to £73.5m. North America remains our largest retail market and once again enjoyed impressive LFL growth of +18.2% in the year; our share of North America profit (which is accounted for under the joint venture method) increased by 82.8% to £48.8m.

We were pleased to continue the Group bonus scheme for senior and long service employees which paid out £4.9m (consistent with last year), and once again increased amounts donated to charitable causes by £2.1m to £8.3m (for more detail refer to 'Charitable donations' in the Directors' report).

Financial position

Having posted record pre-tax profits of £73.5m, the Group remains in a solid financial position finishing the year with net cash of £28.4m and having re-invested a further £32.6m into our retail portfolio, factories and equipment, and digital projects. This strength is supplemented by our Barclays revolving credit facility which allows us to borrow up to £35m if needed for further expansion and investment. We also have local borrowing facilities available to us in Japan (with SMBC and The Bank of Yokohama) and in our joint venture undertakings in North America (with Wells Fargo bank).

Strategy

We have done and continue to review our strategy for future years. We have already made the commitment to invest profits into our staff through paying the 'real' Living Wage in the UK and similar incentives elsewhere, and continue to make progress in bringing an element of employee ownership to the business.

We have also continued to alleviate the pressure on our UK Manufacturing facility, with the biggest contribution coming from our new facility in Germany. We have never set up a new facility on this scale before and several operational challenges have resulted in losses being higher than we anticipated; however the strategic benefit of this location is beyond question, especially in light of Brexit which will create further pressure on UK staffing levels.

Since focussing on our larger shop strategy we have more than doubled our average turnover per store which now stands just short of the £1m target that we set for ourselves; we will continue to commit to bigger and better shops in prime locations but need to address the operational challenges that they present, in particular through better bespoke systems to ease the administrative burden on our shop staff.

Our strategy includes focussing on specific markets, in particular unlocking the potential in the France and Germany retail markets, reviewing our approach for the Brazil market, and continuing the revival of our Japan market which has the additional strategic benefit of a smoother sales profile during the year rather than the reliance on Christmas trading experienced in our Western markets.

Further detail on Strategy is included under the 'Stores', 'Online and Digital', 'Manufacturing and Sourcing' and 'Employees' sections below.

Stores

Our Global shop count increased by 4 over the course of the year finishing at 932, the net of 56 openings and 52 closures. There were 20 openings within our Group countries including 3 in Japan, 4 in Australasia and 4 in Spain. Elsewhere, in our other significant territories, there were 11 openings in North America and 7 in Korea.

Relocations were once again a key focus during the year as we continued to seek larger and prime locations for shops that cannot service their customers sufficiently due to space restrictions. During the year there were 14 relocations in our Group countries, 4 of which were in the UK and included Cardiff which also became our first Spa store in Wales; the sales growth on these sites is impressive with LFL averaging close to 50% after reopening. There were also 14 relocations in North America with +48.0% average LFL since reopening.

The impact of relocations, new shops and underlying LFL growth has seen our average shop sales increase in the year by 17.8%, from £815,000 to £960,000 (using consistent exchange rates).

We have made good progress in Japan during the year rationalising the store portfolio (closing 31 'off brand' small stores) but also improving the Brand profile through strategic new shops and relocations. Further significant openings are planned in the new financial year in Kobe (5,000 gross sq ft relocation) and Shinsaibashi (3,500 gross sq ft second store) whilst we have just committed to a 17,000 gross sq ft flagship site in central Tokyo, planned to open in May 2019. Having halved the losses of last year we are optimistic about returning this market to profitability.

Strategic Report *(continued)*

Stores (continued)

Going forward we will also be focussing on the France and Germany retail markets which have the potential to be at least as large and successful as the UK but do not currently have the same brand profile; we are working on a property plan focussing on major towns and cities in these 2 markets, including strategically placed spa shops, and supported by a strong social media and digital presence.

We envisage that spas will continue to be a major part of the Brand building and that 'Oxford St.' sized, large shops providing an all-encompassing Lush experience are needed in each major market alongside investment in a digital and social media strategy to drive growth. In the UK we will be taking this a step further, having committed to a 30,000 gross sq ft store in Liverpool which will be the catalyst for further new product development similar to that experienced for Oxford St.

Online and Digital

Digital sales in our Group markets grew from £32.6m to £38.4m, an increase of 17.6% although the underlying increase is reduced to 6.3% after excluding the impact of exchange rate variations.

The new website was rolled out into our Group markets at the beginning of the financial year which included a new customer care portal to manage customer interactions, a new fulfilment system to better manage delivery of orders and a new data warehouse to give visibility of sales. We also implemented a new global payment gateway, meaning that we could offer customers more methods of payment as well as benefitting from global economies of scale.

The website rollout did come with some teething issues which were addressed over the following months and there were instances of functionality loss in some markets at the point of switching over. We are now investing in Service Orientated Architecture which will allow us to break down our current infrastructure into chunks, or microservices, enabling faster production of features and releases. It also provides a much more resilient structure in the case of issues or failures, if one service goes down the others remain live.

In keeping with our commitment to our ethical principles within technology, we migrated our entire web hosting over to Google Cloud Platform during the year. Google are committed to powering all of their data centres (in which this hosting resides) by completely renewable energy sources by the end of 2017, which aligns with our Ethical Hardware policy.

Our vision remains to align the whole business on the most sustainable, centrally managed, technology ecosystem and ensure that, as the whole business grows, the infrastructure is in place to support it. We continue to work on a number of new tools for the Lush business including a completely new till system; this is being trialled with a view to global rollout in the next financial year. This project will provide the business with a bespoke till system that fits with our Open Source policy on development and does not rely on third party software. It will make the customer journey in store much more fluid and quicker to get through the checkout and save the business significantly on costly licenses, management fees and capital investment.

Manufacturing and Sourcing

Global Manufacturing has seen over 171 million items produced in the last financial year, an extra 31 million items (22%) on the previous year. The continued growth of the Brand continues to provide challenges and we have progressed our strategy of alleviating pressure on the UK facility through transferring supply of markets to other overseas facilities.

Our newest manufacturing facility in Dusseldorf, Germany did suffer higher opening losses than expected but was supplying 7 central European markets by the end of the year and is expected to supply a further 3 markets during the next financial year. This facility is also well positioned to satisfy our future growth plans for the France and Germany retail markets. The prospect of a 'hard' Brexit adds to its strategic importance with some of our disillusioned UK staff taking the opportunity to move to Germany whilst it also has the potential advantage of being tariff free.

Elsewhere our Balkan facility successfully took over supply of our Spain and Portugal markets, Japan took on supply of the Hong Kong and Singapore markets and will supply Korea from February 2018, and our Brazil facility started to supply our Chilean market. Our UK Manufacturing facility will continue to supply 17 international markets whilst supporting new product launches and global product development.

Strategic Report *(continued)*

Manufacturing and Sourcing (continued)

Another key development in the year was the commitment by a related party company, Cosmetic Warriors Ltd, to the purchase of a 52,000 sq ft factory unit in Poole to be used as a centre for development and innovation on behalf of the Lush Group. The planned initiatives will help to reduce the pressure on the UK manufacturing facilities which currently incorporate an element of research and development work.

The growth of the business also continues to provide challenges for our buying and sourcing function. This year saw us focus on regenerative strategies for growing and processing our key ingredients alongside moving from distributors to producers across a range of natural and safe synthetic materials. Sourcing in extremely unconventional ways does not come without its challenges and this year has been no exception. Vanilla, an important ingredient used in many products, saw a complete market crash with prices soaring and global supply unable to keep pace with demand. The weakening of sterling following Brexit pushed material prices up significantly for our UK business and some large market based increases were incurred for a few key essential oils. Our dynamic approach to sourcing helped soften the blow with cost savings achieved by working direct with growing communities and engaging a new manufacturer to produce our lustres. Having a more direct involvement in the growing and processing of our materials remains a priority and this year saw us invest in a formal partnership in Pakistan as well as beginning to establish a presence in both Kenya and Lebanon.

Employees

We believe that the same fair trade commitment we make to our suppliers should also be made to our staff; that fair trade should not just be for growers and small scale farmers but also for the employees of multi-national corporations as life choices become harder globally for those who work in the lower pay sectors. At Lush, we are committed to a fair wage at all levels of the business and fully support the UK Living Wage Foundation's approach of a hard day's work deserving a fair day's pay. We were first accredited as Living Wage payers when we committed to paying all our staff in London a minimum of the foundation's independently calculated London Living Wage rate in May 2011.

Since April 2017 we have been paying all permanent UK staff at or above the "real" hourly Living Wage rate for the rest of the country. This national rate, set by the independent Living Wage Foundation, is currently +95p higher than the Government's National Living Wage. We continue to review the rates of pay in our international markets too. In New Zealand we have committed to their independent Living Wage rate from 1 July 2017; in Netherlands where the minimum wage rates are banded by age-band we now pay all staff the same hourly rate irrespective of their age, and in Germany we have increased and aligned the hourly rates for the manufacturing and retail staff. In the UK where 71% of our workforce are women we have a maternity policy that pays 6 months' full pay and also provide childcare funding to enable more women to return to work after having children. New fathers within our UK workforce receive full pay for 4 weeks paternity leave. In both cases our policies extend to cover those taking shared parental leave and also those who adopt. These incentives provide more security to our valued shop and factory staff and reduce their dependence on sales related bonuses, especially given the softening in demand that we are currently experiencing. Whilst having an immediate impact on our profitability we expect a return on this investment in future years.

We also made significant progress towards bringing an element of employee ownership to the business which we believe will protect the prosperity of the Lush business at the same time as recognising the contribution the employees make to its success. The Trust Deed for The Lush Cosmetics Employee Benefit Trust was executed on 4 August 2017 followed by the issue of 10% new shares to the Trust on 16 November 2017. This is a first step on our Employee Ownership journey. The intention is that the EBT will be able to purchase the shares from shareholders when they wish to sell shares with those currently active in the business having agreed to a valuation multiple of five times the average post tax profits of the last three financial years. Over time a future EBT shareholding of 35% is envisaged. Through our 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.

The Group also has a policy of communicating openly with employees and provides information about the business's performance on an ongoing basis. Our International Meetings which take place twice a year are great forums for clearly communicating our values, our buying stories, our innovation and our charitable giving stories. They also give space for inspirational speakers and provide lots of great learning opportunities for our global teams.

Strategic Report *(continued)*

Employees (continued)

We are now focusing on digital training and online learning for the training and development of our staff. In March 2017 our London support team's moved from their 1,360 sq ft office in Carnaby Street to a beautiful new 9,000 sq ft building on Beak Street in the heart of Soho. The new office also houses our Broadcasting and Media Studio with digital facilities to create online content, as well as TV and Podcast productions for our staff and our customers to learn from and enjoy. Lush Digital provides an ideal platform for us given the huge amount of information we have to share with our staff, many of whom prefer a digital delivery to a classroom-based environment.

The Group takes all reasonable steps to ensure that the same 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 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 (including relocated stores) that have been trading for longer than one year and also from a total territory and Group perspective. As mentioned above the LFL growth in the year was +14.0% across all shops and digital outlets in the Lush Brand, and +10.4% across our Group companies only. The LFL sales measures per shop are broken down further into 'Business Drivers', the main drivers being visitor numbers, customer conversion% (i.e. the rate at which our visitors are converted into sales) and average sale per transaction.

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 by 17.8% from £815,000 to £960,000 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 Ltd. and are carried out consistently across shops worldwide.

Future outlook

Our growth has continued to soften in the first half of 2018 with Brand sales growth of +4.4% in the six months to December; LFL growth in this period was +2.6% weighted by a decline of -4.6% in our largest market of the US. The LFL growth in our Group countries was +7.1% for the same period. The reduced sales growth, particularly in the US, is having an impact on our profit for the 2018 financial year along with the impact of increased investment in our staff, increased capital investment and further losses in our German facility. We are currently forecasting a 40% decline in profit for the 2018 financial year.

We continue to invest in opening and relocating stores where suitable premium sites can be found and have opened/relocated 26 Group stores in the first half of the year with a further 21 committed in the rest of the financial year and beyond.

Strategic Report *(continued)*

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.

Brexit

18 months on from the decision for the UK to leave the European Union, little clarity has been achieved by the government other than confirming a leave date of March 2019. We still consider the possibility of a 'hard' Brexit to be anti-business but this has focussed our attention on the supply of our European markets and accelerated the development of our new Germany facility. By making our moves quickly we feel that we are in a better position than waiting for the outome of the protracted negotiations that will follow.

Despite some employees taking the opportunity to move to our German facility, over half of our employees working in our UK Poole facilities are EU migrants. We were very fortunate in 2005 when the UK decided not to place immigration restrictions on the eight eastern European countries that had just joined the EU; this allowed us to plug labour gaps during our busiest periods and deal with the rapid expansion of the Brand that followed. Many of these EU migrants became loyal permanent employees and now wish to stay in the UK. We continue to actively work with and consult with all of our employees, some of which have been left in a protracted legal limbo. We have arranged information sessions for both EU and British workers on migration law and their current rights whilst also providing financial support for legal advice if necessary.

The feeling across the UK is still one of uncertainty and the potential shortage of labour continues to be a major concern for all businesses once the freedom of movement 'taps' are turned off. The impact of additional tariffs and administrative costs remain a financial risk to the business, although partly mitigated by the German facility taking on supply of European markets previously supplied by the UK.

We continue to campaign for freedom of movement and have added the the declaration 'We believe that all people should enjoy freedom of movement across the world' to our 'We Believe' statement - the transparent policy we make available for all to see.

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.

Whilst Brexit has created uncertainty over future tariffs in the UK, there is similar uncertainty and risk for our North America business surrounding the renegotiation of the North America Free Trade Agreement (NAFTA) given that our US Retail business imports finished goods from our Canada Manufacturing facilities, currently free from tariffs. Whilst we currently have no idea how this will resolve itself, we do know that the US corporate tax reforms will have a beneficial impact on the business.

In the US the so called 'Retail Apocalypse' started back in 2010 with visits to malls dropping by a reported 50% in 3 years as a result of too many malls being built, the increase in online shopping and changes in consumer spending patterns. Many malls have now closed with some forecasts predicting an overall reduction of a third as part of the 'correction process'. Whilst Lush represents a relatively small portion of the US cosmetics market, our shops have seen a consequent drop in footfall and LFL growth during the year, and into LFL decline in the first half of the 2018 financial year which has had an effect on the morale of our staff.

Elsewhere the impact of low oil prices on the economies of the Middle East, the continued drop in Chinese visitors in Hong Kong and the continuation of the worst recession in Brazil's history have impacted sales in these territories.

Once again, despite uncertainties in many of our markets, we have experienced impressive Global sales growth which illustrates the uniqueness of our products which distinguish us from the rest of the High Street.

Supply of raw materials

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 whereby in extreme circumstances we are able to adjust product formulations, a strategy that we employed on occasion this year. In order to ensure the long term supply of our natural raw materials we have continued to invest in growing and processing and have funded several international projects. We are monitoring the Brexit process carefully with potential risks being the changes to tariffs and added complexity to the movement of goods.

Strategic Report *(continued)*

Liquidity risk

On 1 August 2016 we completed the renewal of our UK 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 financial statements 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 risk

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 we have not experienced an adverse impact on our Group figures as the higher costs of our raw material imports in the UK have been offset by the cheaper cost of our UK exports to our overseas customers.

We have considered the impact of other financial risks such as interest risk and cash flow risk and do not believe there is a material impact on the business.

The Strategic Report was approved by the Board of Directors on 12 March 2018 and signed on its behalf by:

Mr M Constantine
Director

Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2017.

Results and dividends

There was a profit for the financial year amounting to £43,625,000 *(2016: £30,035,000)*. The Company proposed and paid dividends of £182.50 per share during the year, a total of £1,500,000 *(2016: £2,250,000)*. Please see note 9 for further details on dividends paid during the financial year.

A final dividend payment for the year ended 30 June 2017 of £164.26 per share, a total of £1,500,000, was proposed and paid on 1 March 2018. A further interim dividend in respect of the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed and paid on 7 March 2018.

Directors

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

Mr M Constantine
Mrs M Constantine
Mr K Bygrave

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 £13,370,000 *(2016:* £10,413,000) and donated a total of £11,763,000 *(2016: £8,250,000)* of funds to charities and other good causes; of the total amount donated, £8,311,000 was from the Lush Group including the relevant share of Joint Ventures and Associate entities *(2016: £6,202,000)*, an increase of 34.0%. 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.

The majority of funds raised in the year was through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. This year Lush partners raised £9,845,000 *(2016:£6,293,000)* in 36 countries, with 100% of the retail price of the product, less VAT, going to a variety of good causes working in the focus areas.

Other contributions to our Charitable donations total are as follows:

- The 'Sustainable Lush' (SLush) fund raised a total of £1,465,000 (*2016:£1,510,000)* of which a total of £1,285,000 *(2016: £1,171,000)* was donated in the year with a further £180,000 set aside, 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 £318,000 was raised in the year *(2016: £314,000)*.

- FunD which is a fund used to support children affected by the Fukushima disaster, and raises funds through global sales of our FUN product; the total amount raised in the year was £206,000 *(2016: £195,000)*.

- We also ran the Lush Prize again in this financial year, where we donated a total of £250,000 *(2016: £250,000)* to the winners, all of whom are engaged in research, campaigning or training to end animal testing.

- We set aside and donated £220,000 (2016: £200,000) for our Annual awards whereby we contribute £20,000 to special groups we partner with, or think are making a vital contribution to social change.

- Various limited edition products for specific charities and campaigns, raising £1,066,000 *(2016: £1,447,000)*. Examples include our Error 404 bath bomb supporting the campaign to stop government enforced shut downs of internet services where we raised funds of £189,000 and our 'Buy One, Set One Free' campaign which raised £61,000 and is aimed at raising awareness and money to support Reprieve in their attempts to ensure the safe release of Andy Tsegem who was kidnapped from an international airport and is being held illegally on Ethiopia's death row.

Directors' report *(continued)*

Taxation and Country by Country Reporting

Whilst our consolidated turnover is not substantial enough to require mandatory country by country reporting, we wish to be transparent with readers of our financial statements regarding our contribution to taxation globally so continue to report on a voluntary basis.

We are pleased to be associated with the Fair Tax Mark and 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.

The country by country breakdown in respect of the year ended 30 June 2017 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	102	1	4,942	140,149	179,654	**319,803**	79,899	18,618	7,274	39.1%	5,572	5,924	7,345	112	322	**19,275**
Japan	100	1	1,495	81,241	3,102	**84,343**	34,562	(3,685)	118	-3.2%	51	150	4,449	1	178	**4,829**
Australia	32	1	757	42,538	21,359	**63,897**	19,149	1,351	819	60.6%	284	-	1,681	-	118	**2,083**
France	44	-	491	31,469	695	**32,164**	11,871	2,165	498	23.0%	297	66	-	-	-	**363**
Germany	41	1	936	26,817	15,415	**42,232**	16,647	(4,335)	376	-8.7%	135	-	4,439	-	-	**4,574**
Hong Kong and Macau	11	-	203	19,086	-	**19,086**	4,130	(3,506)	115	-3.3%	1,455	219	-	5	-	**1,679**
Italy	34	-	360	18,005	617	**18,622**	7,587	(873)	108	-12.4%	65	13	3,222	3	-	**3,303**
Middle East	20	-	237	17,148	-	**17,148**	5,215	1,284	(49)	-3.8%	-	-	-	-	-	**-**
Netherlands	9	-	201	10,363	-	**10,363**	3,225	1,229	807	65.7%	616	-	-	-	-	**616**
Spain	16	-	340	11,584	-	**11,584**	4,902	(1,120)	-	0.0%	-	40	1,304	-	-	**1,344**
Sweden	9	-	113	6,600	-	**6,600**	2,611	(175)	-	0.0%	-	20	1,078	-	-	**1,098**
New Zealand	9	-	122	7,740	-	**7,740**	1,448	683	240	35.1%	-	-	-	-	-	**-**
Austria	7	-	57	5,851	-	**5,851**	2,181	572	42	7.3%	9	-	854	-	-	**863**
Belgium	5	-	69	4,520	-	**4,520**	1,399	442	113	25.6%	129	-	271	-	-	**400**
Ireland	3	-	89	3,829	-	**3,829**	959	819	110	13.4%	-	66	92	-	-	**158**
Brazil	5	1	45	3,987	677	**4,664**	2,012	(7,035)	30	-0.4%	-	-	735	-	87	**822**
Czechia	1	-	28	1,948	-	**1,948**	304	629	122	19.4%	89	-	3	-	-	**92**
Hungary	4	-	36	1,912	-	**1,912**	453	233	25	10.7%	-	-	87	-	-	**87**
Luxembourg	1	-	4	864	-	**864**	228	268	56	20.9%	45	-	6	-	-	**51**
Portugal	2	-	21	668	-	**668**	260	(138)	-	0.0%	-	-	74	-	-	**74**
Bulgaria	2	-	11	308	-	**308**	117	22	-	0.0%	-	-	11	-	-	**11**
Estonia	1	-	9	273	-	**273**	88	47	-	0.0%	-	-	34	-	-	**34**
Peru	-	-	5	-	-	**-**	63	(137)	-	0.0%	-	-	2	-	-	**2**
Ghana	-	-	22	-	7	**7**	20	(62)	-	0.0%	-	-	1	-	1	**2**
Latvia [1]	-	-	1	-	-	**-**	8	211	-	0.0%	-	-	2	-	-	**2**
Lithuania [1]	-	-	-	9	-	**9**	21	183	-	0.0%	-	-	5	-	-	**5**
Croatia - Manufacturing	-	1	382	-	14,662	**14,662**	3,294	1,701	(458)	-26.9%	166	-	429	-	-	**595**
Elimination and consolidation [2]				-	(175,309)	**(175,309)**		12,747	761							
Deferred tax consol [3]									(270)							
Group subtotal	458	6	10,976	436,909	60,879	**497,788**	202,653	22,138	10,837	49.0%	8,913	6,498	26,124	121	706	**42,362**
Share of PBT:																
Joint Ventures' [4]						218,608		48,580	18,514	38.1%						
Associates'						27,352		2,764	506	18.3%						
Non group subtotal						245,960		51,344	19,020	37.0%						
						743,748		73,482	29,857	40.6%						

Note 1: Operations ceased during the year but are included here for completeness.
Note 2: Elimination of manufacturing sales to group companies and consolidation adjustments.
Note 3: Recognition of deferred tax asset on unrecognised intra-group profits and deferred tax recognised at Group Level.
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.

Directors' report *(continued)*

Taxation and Country by Country Reporting (continued)

All our group entities are tax resident in their place of incorporation. Whilst we have group and associate entities located in countries which are perceived as tax havens, our presence there is due to economic substance, not for tax reasons. For example, in the Middle East our retail shops have increased from 15 to 20 during the financial year. 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 has now terminated.

Our effective tax rate of 40.6% is higher than the standard rate of Corporation Tax in the UK of 19.75%. This is predominantly due to the impact of profits which are taxed at a higher rate than the UK (most notably in the US), expenses not deductible for tax purposes relating to Hong Kong and North America and unrecognised deferred tax assets in respect of tax losses accumulated in the year.

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.

During the year, we have encountered a few enquiries from tax authorities on the tax treatment of some inter-company transactions. Whilst we have defended our position where we feel this is appropriate, there have been circumstances where we have worked with the tax authorities to resolve the discrepancies, in some instances this has included making payments for tax under declared and correcting the tax treatment going forwards. In some situations, we have incurred interest and penalties which we have duly paid. Post year end, we continue to have open discussions with global tax authorities and have engaged professional services firms locally where additional support is deemed necessary.

Note 8 of the accounts provides further detail and narrative around the corporation tax charge for the year ended 30 June 2017, which is only one element of our tax contribution for the year.

Branches outside the UK

At 30 June 2017 and 30 June 2016 the Lush Group had overseas branches in Luxembourg and Czechia.

Disclosure of information to auditors

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

Change of external auditors

Following a review by management of the external audit process, KMPG LLP is being recommended for appointment as the Group's external auditors for the year ending 30 June 2018.

On behalf of the board

Mr M Constantine
Director

12 March 2018

29 High Street
Poole
Dorset
BH15 1AB

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

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

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

The directors are also responsible for safeguarding the assets of the Group and Company 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 audit of the financial statements

Opinion

In our opinion, Lush Cosmetics Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2017 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 30 June 2017; the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
16 March 2018

Consolidated profit and loss account

for the year ended 30 June 2017

	Note	2017 £000	2016 £000
Turnover (including share of joint ventures' and associates' turnover)		**743,748**	563,367
Less: share of joint ventures' turnover	2	**(218,608)**	(149,939)
share of associates' turnover	2	**(27,352)**	(18,481)
Group turnover	2	**497,788**	394,947
Cost of sales		**(147,375)**	(119,179)
Gross profit		**350,413**	275,768
Operating expenses		**(327,718)**	(260,147)
Group EBITDA		**42,289**	28,874
Group depreciation, amortisation and impairment	3	**(19,594)**	(13,253)
Group operating profit	3	**22,695**	15,621
Share of operating profit from joint ventures	2	**48,750**	26,726
Share of operating profit from associates	2	**2,800**	1,630
Net interest (payable) / receivable and similar items - Group	6	**(557)**	(590)
- Joint ventures	7	**(170)**	(184)
- Associates	7	**(36)**	19
Profit before taxation		**73,482**	43,222
Tax on profit - Group	8	**(10,837)**	(2,800)
- Joint ventures	8	**(18,514)**	(10,127)
- Associates	8	**(506)**	(260)
Profit for the financial year		**43,625**	30,035
Profit attributable to:			
- Owners of the parent		**41,566**	28,817
- Non-controlling interests	21	**2,059**	1,218
Profit for the financial year		**43,625**	30,035

All results relate to continuing activities.

Consolidated statement of comprehensive income

for the year ended 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Profit for the financial year			**43,625**		30,035
Other comprehensive income:					
Revaluation of intangible assets	*10*	**508**		-	
Tax on components of other comprehensive income	*8*	**(100)**		-	
Currency translation differences - Group		**1,595**		2,380	
- Joint Ventures		**634**		3,792	
- Associates		**220**		400	
- Non-controlling interests		**10**		101	
Other comprehensive income for the year			**2,867**		6,673
Total comprehensive income for the year			**46,492**		36,708
Total comprehensive income attributable to:					
- Owners of the parent			**44,423**		35,389
- Non-controlling interests			**2,069**		1,319
Total comprehensive income for the year			**46,492**		36,708

Consolidated balance sheet
at 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Intangible assets	10		21,171		17,828
Tangible assets	11		47,904		37,330
Investments in joint venture undertakings	12		49,850		31,607
Investments in associate undertakings	12		5,187		3,789
			124,112		90,554
Current assets					
Stocks	13	35,749		26,575	
Debtors: amounts falling due within one year	14	30,461		25,592	
amounts falling due after more than one year	14	19,481		13,229	
Cash at bank and in hand		46,009		32,270	
		131,700		97,666	
Creditors: amounts falling due within one year	15	(86,253)		(67,423)	
Net current assets			45,447		30,243
Total assets less current liabilities			169,559		120,797
Creditors: amounts falling due after more than one year	16		-		(139)
Provisions for liabilities	17		(12,489)		(4,459)
Net assets			157,070		116,199
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			137,653		98,763
Equity attributable to owners of the parent			152,781		113,891
Non-controlling interests	21		4,289		2,308
Total equity			157,070		116,199

These financial statements on pages 14 to 50 were approved by the Board of Directors on 12 March 2018 and signed on its behalf by:

Mr M Constantine
Director

Lush Cosmetics Limited
Registered Number - 04162033

Company balance sheet
at 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Investments	*12*		**7,078**		7,078
Current assets					
Debtors	*14*	**19**		-	
Cash at bank and in hand		**-**		1	
		19		1	
Creditors: amounts falling due within one year	*15*	**(780)**		(363)	
Net current liabilities			**(761)**		(362)
Total assets less current liabilities			**6,317**		6,716
Net assets			**6,317**		6,716
Capital and reserves					
Called up share capital	*19*		**8**		8
Share premium account			**987**		987
Capital redemption reserve	*20*		**3**		3
Other reserves	*20*		**6,080**		6,080
Accumulated losses			**(761)**		(362)
Total equity			**6,317**		6,716

These financial statements on pages 14 to 50 were approved by the Board of Directors on 12 March 2018 and signed on its behalf by:

Mr M Constantine
Director

Consolidated statement of changes in equity
for the year ended 30 June 2017

	Note	Called up share capital £000	Share Premium account £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 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	*12/21*	-	-	-	-	(108)	**(108)**	(618)	**(726)**
Dividends paid	*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**
Profit for the financial year		-	-	-	-	41,566	**41,566**	2,059	**43,625**
Other comprehensive income:									
Change in value of Bitcoin		-	-	-	-	508	**508**	-	**508**
Tax on other comprehensive income		-	-	-	-	(100)	**(100)**	-	**(100)**
Arising on exchange differences - Group		-	-	-	-	1,595	**1,595**	-	**1,595**
- JV		-	-	-	-	634	**634**	-	**634**
- Associates		-	-	-	-	220	**220**	-	**220**
- NCI		-	-	-	-	-	**-**	10	**10**
Total comprehensive income for the year		-	-	-	-	**44,423**	**44,423**	**2,069**	**46,492**
Movement in JV, associates and NCI reserves	*12/21*	-	-	-	-	(4,033)	**(4,033)**	(88)	**(4,121)**
Dividends paid	*9*	-	-	-	-	(1,500)	**(1,500)**	-	**(1,500)**
As at 30 June 2017		**8**	**987**	**3**	**14,130**	**137,653**	**152,781**	**4,289**	**157,070**

Company statement of changes in equity
for the year ended 30 June 2017

	Note	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Accumulated losses £000	Total equity £000
As at 1 July 2015		8	987	3	6,080	(1,057)	**6,021**
Profit for the financial year	*1(b)*	-	-	-	-	2,945	**2,945**
Dividends paid	*9*	-	-	-	-	(2,250)	**(2,250)**
As at 30 June 2016		**8**	**987**	**3**	**6,080**	**(362)**	**6,716**
Profit for the financial year	*1(b)*	-	-	-	-	1,101	**1,101**
Dividends paid	*9*	-	-	-	-	(1,500)	**(1,500)**
As at 30 June 2017		**8**	**987**	**3**	**6,080**	**(761)**	**6,317**

Consolidated statement of cash flows
for the year ended 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Net cash from operating activities	22	**39,131**		27,284	
Taxation paid		**(8,913)**		(4,085)	
Net cash generated from operating activities			**30,218**		23,199
Investing activities					
Dividends received from joint ventures and associates	12	**9,504**		5,795	
Dividends paid to minority interests	21	**(168)**		(350)	
Interest received	6	**92**		155	
Interest paid	6	**(649)**		(750)	
Purchase of intangible and tangible fixed assets	10/11	**(32,610)**		(29,023)	
Proceeds on disposal of intangible and tangible fixed assets		**1,556**		1,473	
Investment in associates and subsidiary undertakings		**(103)**		(173)	
Net cash used in investing activities			**(22,378)**		(22,873)
Financing activities					
Increase in borrowings		**17,709**		8,253	
Repayment of bank loans		**(9,674)**		-	
Issue costs of new bank loan		**(210)**		-	
Dividends paid to the owners of the parent	9	**(1,500)**		(2,250)	
Net cash generated from financing activities			**6,325**		6,003
Net increase in cash and cash equivalents			**14,165**		6,329
Cash and cash equivalents at the beginning of the year			**32,270**		21,301
Exchange adjustments on cash and cash equivalents			**(426)**		4,640
Cash and cash equivalents at the end of the year			**46,009**		32,270

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.

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 judgements and estimates. Where applicable management have used their 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 (x).

For the purpose of these financial statements, the Group is considered to be Lush Cosmetics Limited and its subsidiaries, associates and joint ventures. The shareholders of Group companies and entities that have common shareholders with Group companies are considered to be related parties. The Group has no shareholdings in licensee operations and for that reason they are not considered to be related parties.

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 received for the Company for the year was £399,000 *(2016: loss of £555,000)*. During the year the Company received dividend income of £182.50 per share, a total of £1,500,000 *(2016: £3,500,000)* 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.

The Company has taken advantage of the following exemptions:

i) From preparing a statement of cash flows, on the basis that 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.

iii) From preparing certain financial instrument disclosures, as the equivalent disclosures are included in these consolidated financial statements.

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 2017.

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.

Monetary assets and liabilities denominated in foreign currencies are translated using 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 operating expenses. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction.

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. Based on the historic rate of returns, management do not consider it necessary to include a provision for future returns.

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. Based on the historic rate of returns, management do not consider it necessary to include a provision for future returns.

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, a related entity. The net royalty expense is recognised as other operating cost 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 dividends received by the Company are recognised in the profit and loss account.

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 administrative 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 relevant to the financial year or prior years.

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 the acquisition of 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 line 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.

Bitcoin

Bitcoin are recognised as an intangible asset and carried at their fair value (the revaluation model). Increases in fair value (and decreases to the extent they reverse previous increases) are recognised through other comprehensive income and accumulated in equity. Decreases in fair value (and increases to the extent they reverse previous decreases) are recognised through the profit and loss account.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

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.

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 operating 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

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.

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 non-recoverable 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 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 debtors, amounts owed by joint ventures, associates 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 ownership of the asset are transferred to another party.

Financial liabilities

Basic financial liabilities, including trade and other creditors, amounts owed to associates and related parties, 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.

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 Ltd. on behalf of its global subsidiaries, enabling those companies to benefit from fixed exchange rates on a portion of their 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. These amounts are recognised in the statement of changes in equity.

u) Related party transactions

The Group discloses transactions with all related parties which are not subsidiaries within the same Group in note 25. 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, such as impairment of fixed assets at a territory level, as 'exceptional items'. Where such transactions are identified they are disclosed separately on the face of the profit and loss account to provide further understanding of the financial performance of the Group.

w) Cost allocation

Cost of sales represents the total cost of producing Essential Components and Finished Goods sold in the year. All other retail and support teams' payroll, premises and operating costs and general overheads of the business are disclosed within operating expenses.

x) Critical 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 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 utilised.

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 and third party property valuations. 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Turnover by origin										
Total turnover	**476,212**	387,820	**4,664**	2,349	**120,578**	97,597	**71,644**	42,058	**673,098**	529,824
Inter-segment sales	**(151,232)**	(122,968)	**(858)**	-	**(1,861)**	(74)	**(21,359)**	(11,835)	**(175,310)**	(134,877)
Group turnover to third parties	**324,980**	264,852	**3,806**	2,349	**118,717**	97,523	**50,285**	30,223	**497,788**	394,947
Share of joint ventures' turnover	-	-	**218,608**	149,939	-	-	-	-	**218,608**	149,939
Share of associates' turnover	**13,118**	9,506	**645**	443	**12,686**	8,010	**903**	522	**27,352**	18,481
Total turnover (including share of joint ventures and associates)	**338,098**	274,358	**223,059**	152,731	**131,403**	105,533	**51,188**	30,745	**743,748**	563,367

	UK and Europe		Americas		Asia		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Segment operating profit/(loss)	**29,470**	22,524	**(4,089)**	(3,414)	**(4,394)**	(6,890)	**1,708**	3,401	**22,695**	15,621
Share of operating profit from joint ventures	-	-	**48,750**	26,726	-	-	-	-	**48,750**	26,726
Share of operating profit from associates	**1,294**	833	**71**	6	**1,318**	727	**117**	64	**2,800**	1,630
Net interest income / (expenses)	**44**	368	**(669)**	(590)	**(37)**	-	**(101)**	(533)	**(763)**	(755)
Group profit / (loss) before taxation	**30,808**	23,725	**44,063**	22,728	**(3,113)**	(6,163)	**1,724**	2,932	**73,482**	43,222

Net assets	UK and Europe		Americas		Asia		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Group segment net assets/(liabilities)	**107,165**	78,713	**(16,563)**	(11,045)	**7,187**	10,970	**4,244**	2,165	**102,033**	80,803
Joint ventures' net assets	-	-	**49,850**	31,607	-	-	-	-	**49,850**	31,607
Associates' net assets	**1,865**	1,769	**222**	92	**2,824**	1,766	**276**	162	**5,187**	3,789
Total net assets									**157,070**	116,199

Notes to the financial statements *(continued)*

2 Segmental analysis *(continued)*

Group turnover by business segment;

	2017 £000	2016 £000
Retail sales	**400,122**	317,273
Internet sales	**38,387**	32,634
Manufacturing sales	**59,279**	45,040
	497,788	394,947

3 Group operating profit

The profit before taxation is stated after charging/(crediting):	2017 £000	2016 £000
Depreciation of tangible assets *(see note 11)*	**15,956**	10,629
Impairment of tangible assets *(see note 11)*	**1,426**	1,177
Amortisation of goodwill and other intangible assets *(see note 10)*	**1,935**	1,367
Impairment of intangible assets *(see note 10)*	**277**	80
Loss on disposal of tangible and intangible assets	**662**	800
Inventory recognised as an expense	**82,651**	68,278
Impairment of inventory	**649**	766
Operating lease rentals – Plant and machinery	**686**	741
- Property	**61,385**	45,887
Foreign exchange gain	**(1,033)**	(2,023)
(Gain) / loss in fair value of forward exchange contracts	**(592)**	1,223

Auditors' remuneration:	2017 £000	2016 £000
Audit of these financial statements	**83**	166
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries, joint ventures and associates pursuant to legislation	**548**	446
- Other services relating to taxation	**100**	95
- All other services	**38**	34

4 Remuneration of directors

	2017 £000	2016 £000
Directors' emoluments	**1,350**	1,368

The aggregate of emoluments received by the highest paid director during the year that were paid by the Group was £450,000 *(2016: £456,000)*. The Group has made £nil payments to the Company's defined contribution pension scheme on behalf of the highest paid director *(2016: £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 *(2016: £nil)* on behalf of the directors to the Company's defined contribution pension scheme.

The directors received no emoluments (*2016: £nil*) for their services to the Company as the services provided by them to the Company are considered incidental to their wider role in the Lush Group.

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
	2017	2016
Administration	**724**	691
Digital	**221**	172
Production	**2,494**	2,094
Retail	**7,537**	6,854
	10,976	9,811

*The prior year comparative has been restated to show the average monthly headcount.

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**175,706**	142,211
Social security costs	**22,862**	17,211
Other pension costs	**4,085**	2,573
	202,653	161,995

The Company employs no staff *(2016: nil)*.

Key management compensation

Key management includes the directors and eight members of senior management of the Group *(2016: eight)*. The compensation paid or payable to key management for employee services is shown below:

	2017	2016
	£000	£000
Salaries and other short-term benefits	**3,431**	3,631
Post-employment benefits	**2**	3
	3,433	3,634

6 Net interest (payable)/receivable and similar items

	2017	2016
	£000	£000
Interest payable on bank loans	**(544)**	(419)
Other interest payable	**(20)**	(113)
Amortisation of issue costs on bank loan	**(85)**	(212)
Bank interest receivable	**90**	92
Interest receivable from joint ventures and associates	**-**	62
Other interest receivable	**2**	-
Total Group net interest payable and similar items	**(557)**	(590)

Notes to the financial statements *(continued)*

7 Share of joint ventures' and associates' interest (payable) / receivable and similar items

	2017 £000	2016 £000
Joint ventures		
Interest payable on bank loans and overdrafts	(210)	(155)
Other interest payable	-	(29)
Other interest receivable	40	-
Group share of joint ventures' interest payable and similar items	(170)	(184)
Associates		
Interest (payable) / receivable on bank loans	(36)	19
Group share of associates' interest (payable) / receivable and similar items	(36)	19

8 Tax on profit

Analysis of charge in year;	2017 £000	2016 £000
Current Tax		
UK current tax		
UK current tax on income for the year	6,364	4,978
Adjustments in respect of prior periods	613	(479)
Double taxation relief	(220)	(217)
Foreign current tax		
Foreign tax	3,071	1,911
Adjustments in respect of prior periods	527	85
Share of joint ventures' current tax	18,523	11,025
Adjustments in respect of prior periods: joint ventures	(251)	(262)
Share of associates' current tax	525	281
Total current tax	29,152	17,322
Deferred tax		
Current year movement in timing differences	287	(637)
Impact of change in tax rate	43	(2)
Adjustments in respect of prior periods	152	(2,839)
Share of joint ventures' deferred tax	(705)	(636)
Adjustments in respect of prior periods: joint ventures	947	-
Share of associates' deferred tax	(19)	(21)
Total deferred tax	705	(4,135)
Tax on profit	29,857	13,187

Tax expense included in other comprehensive income	2017 £000	2016 £000
Current tax	100	-
Total tax expense included in other comprehensive income	100	-

Notes to the financial statements *(continued)*

8 Tax on profit *(continued)*

Factors affecting the tax charge for the current year

The total tax charge for the year is higher *(2016: higher)* than the standard rate of corporation tax in the UK of 19.75% *(2016: 20%)*. The differences are explained below.

	2017 £000	2016 £000
Total tax reconciliation		
Profit before taxation	**73,482**	43,222
Current tax at 19.75% *(2016: 20%)*	**14,513**	8,644
Effects of:		
Expenses not deductible for tax purposes	**3,939**	1,754
Non-taxable income	**-**	(130)
Different tax rates on overseas earnings	**6,285**	3,685
Utilisation of unrecognised tax losses brought forward	**(267)**	(489)
Current year losses for which no deferred tax has been recognised	**3,274**	2,950
Foreign taxes	**456**	268
Adjustments in respect of prior periods	**1,988**	(3,495)
Changes in recognition of deferred tax assets	**(374)**	-
Remeasurement of deferred tax - change in UK tax rate	**43**	-
Total tax charge (see above)	**29,857**	13,187

The Group's effective tax rate for the year has increased from 30.5% to 40.6%. The impact of profits which are taxed at a higher rate than the UK (most notably North America, Germany, Australasia and France) has the most significant impact on our effective tax rate. The effective tax rate has also been impacted by expenses that are not deductible for tax purposes relating to Hong Kong and North America and unrecognised deferred tax assets in respect of tax losses accumulated in the year.

UK corporation tax rate

Finance (No. 2) Act 2015 was substantively enacted on 26 October 2015 and reduced the main rate of corporation tax in the UK to 19% from 1 April 2017 and to 18% from 1 April 2020. Finance Act 2016 was substantively enacted on 6 September 2016 and further reduced the main rate of corporation tax in the UK to 17% with effect from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the substantively enacted tax rates at which they are expected to reverse.

Other tax rate changes

United States - On 22 December 2017, the US Government signed into law extensive changes to the US tax system. For accounting purposes, the Act was substantively enacted after the balance sheet date, therefore no account of the impact has been taken into account in these financial statements. One of the key changes introduced in the Act is the substantial reduction in the US Corporate tax rate from the existing 35% to 21%, with effect from 1 January 2018: we will see the impact of this rate to our tax charge in our year ending 30 June 2018 accounts where a hybrid rate will be applied for the financial period.

Japan - The corporation tax charge in Japan is made up of inhabitants tax in addition to the national corporation tax charge. It is understood that the corporation tax rate will reduce to 23.2% for taxable years beginning on or after 1 April 2018. The impact of the reduction in the rate has been taken into account when quantifying the deferred tax on the timing differences arising in Japan.

Notes to the financial statements *(continued)*

9 Dividends

An interim dividend payment was declared by the directors on 23 February 2017. The dividend paid was £182.50 per share, a total of £1,500,000 *(2016: £2,250,000).*

At this date, the Company did not have sufficient distributable reserves to make the distribution, which was therefore not in accordance with the provisions of the Companies Act 2006. At the date of the dividend payment and at any other time during the financial year, sufficient distributable reserves would have been available in the Company had its subsidiary undertakings passed up distributable profits to the Company through distributions from those subsidiary undertakings' own distributable reserves.

The Directors consider that it is in the best interests of the Company to take the necessary steps to regularise this position, since shareholders received the dividends they were intended to receive, and the Company would not wish to take any action it could technically take against the relevant shareholders to recover any amounts in connection with the dividends paid.

On 21 February 2018, a dividend of £1,400,000 was received by the Company from Lush Ltd., a subsidiary undertaking, to regularise the distributable reserves position in the Company. On 28 February 2018 the Company has entered into a Shareholders' Deed of Release and Directors' Deed of Release to discharge any current or former shareholder of the Company that received a dividend and any Directors of the Company from any obligation to repay any amount to the Company in connection with the dividends paid. As such the Company has not disclosed the potential right to make claims against the Shareholders' of the Company as an asset, or a contingent asset, in its financial statements. Accordingly, the Company's entry into the Shareholders' Deed of Release will not result in any decrease in the Company's net assets or the level of its distributable reserves.

A final dividend payment for the year ended 30 June 2017 of £164.26 per share, a total of £1,500,000, was proposed and paid on 1 March 2018. A further interim dividend in respect of the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed and paid on 7 March 2018. These dividends were funded through post year-end dividends received from Lush Ltd.

Notes to the financial statements *(continued)*

10 Intangible assets

Group	Bitcoin	Goodwill	Key money	Software and website costs	Total
	£000	£000	£000	£000	£000
Cost					
At 1 July 2016	-	10,477	14,130	9,081	33,688
Additions	398	-	2,689	2,936	6,023
Disposals	-	(86)	(742)	(1,524)	(2,352)
Foreign exchange	-	2	742	(131)	613
Revaluation	508	-	-	-	508
Cost adjustment	-	-	(278)	(658)	(936)
At 30 June 2017	**906**	**10,393**	**16,541**	**9,704**	**37,544**
Accumulated amortisation and impairment					
At 1 July 2016	-	6,710	2,718	6,432	15,860
Charged in year	-	302	-	1,633	1,935
Impairments	-	-	268	9	277
Disposals	-	(23)	(171)	(750)	(944)
Foreign exchange	-	-	160	(176)	(16)
Amortisation adjustment	-	-	(238)	(501)	(739)
At 30 June 2017	-	**6,989**	**2,737**	**6,647**	**16,373**
Net book value					
At 30 June 2017	**906**	**3,404**	**13,804**	**3,057**	**21,171**
At 30 June 2016	-	3,767	11,412	2,649	17,828

At 30 June 2017 valuations of the key money portfolio were obtained from independent valuation experts and have been used to identify whether an impairment to the carrying value of the asset based on the prevailing market value of the key money is required. Based on these independent valuations the carrying value of the key money has been impaired by £268,000 *(2016: £72,000)* at this date.

The cost and amortisation adjustment largely relates to a reclassification of computer equipment with a cost of £738,000 and carrying value of £195,000 in a subsidiary company, Lush Retail Limited, which was incorrectly classified within intangible assets in the prior year. This was corrected in the current year and has been reclassified to tangible assets.

Company

The Company had no intangible assets as at 30 June 2017 *(2016: £nil)*

Notes to the financial statements *(continued)*

11 Tangible assets

Group	Land, leasehold and freehold buildings £000	Fixtures, fittings and equipment £000	Computer equipment £000	Total £000
Cost				
At 1 July 2016	2,380	104,524	6,938	113,842
Difference arising on exchange	138	597	59	794
Additions	1,496	23,314	1,777	26,587
Disposals	(20)	(14,408)	(858)	(15,286)
Cost adjustment	1,641	(666)	879	1,854
At 30 June 2017	**5,635**	**113,361**	**8,795**	**127,791**
Accumulated depreciation and impairment				
At 1 July 2016	1,363	70,549	4,600	76,512
Difference arising on exchange	70	133	14	217
Provided in year	739	13,719	1,498	15,956
Impairment (reversal) / provision	(5)	1,349	82	1,426
On disposals	(6)	(13,615)	(855)	(14,476)
Depreciation adjustment	142	(534)	644	252
At 30 June 2017	**2,303**	**71,601**	**5,983**	**79,887**
Net book value				
At 30 June 2017	**3,332**	**41,760**	**2,812**	**47,904**
At 30 June 2016	1,017	33,975	2,338	37,330

The amounts impaired at 30 June 2017 include the following:

- Management have conducted an impairment review of all retail stores that had made a negative retail margin in the financial year. Any impairment losses on retail stores that have been impaired in previous periods but no longer have a negative retail margin are reversed up to the carrying value of the assets had no impairment been booked. The review indicated that the stores' net carrying amounts exceeded their recoverable amounts by a net figure of £1,330,000 *(2016: £158,000)* and consequently they have been written down by this amount.
- As at 30 June 2017 a separate impairment review over the carrying value of the fixed assets held in the Brazilian business was performed, resulting in an impairment loss of £96,000 *(2016: £1,294,000)* being recognised.

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

The cost and amortisation adjustment partially relates to a reclassification of computer equipment with a cost of £738,000 and carrying value of £195,000 in a subsidiary company (see note 10). The remaining adjustment relates to correction of the opening balances reported in previous financial periods.

Company

The Company does not own any fixed assets as at 30 June 2017 *(2016: £nil)*.

Notes to the financial statements *(continued)*

12 Investments in subsidiaries, joint ventures and associated undertakings

Group	Joint ventures £000	Associates £000
Cost		
At 1 July 2016	31,607	3,789
Exchange differences	634	220
Share of profit for the financial year after interest and tax	30,066	2,258
Less dividends paid by joint ventures and associates	(8,583)	(921)
New share capital issued	-	134
Change in brought forward reserves	53	(293)
Change in reserves due to purchase of own shares (see below)	(3,927)	-
At 30 June 2017	**49,850**	**5,187**

During the year ended 30 June 2017, Lush US Inc and Lush Internet Inc entered into a series of transactions to purchase their own shares from minority shareholders, for a consideration of $12,097,000 and $1,344,060 respectively. The shares were immediately cancelled, which has resulted in the Group ownership in these entities increasing from 50.5% to 53.2%

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 £48,580,000 *(2016: £26,542,000).* The total of the Group's profit before taxation from interests in associates was £2,764,000 *(2016: £1,649,000).*

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

	Joint ventures 2017 £000	Joint ventures 2016 £000	Associates 2017 £000	Associates 2016 £000
Share of turnover of joint ventures and associates	**218,608**	149,939	**27,352**	18,481
Share of assets				
Share of fixed assets	**33,597**	24,213	**3,069**	2,490
Share of current assets	**80,793**	22,576	**5,424**	4,789
	114,390	46,789	**8,493**	7,279
Share of liabilities				
Due within one year	**(51,869)**	(23,094)	**(2,784)**	(3,041)
Due after one year	**(12,671)**	7,912	**(522)**	(449)
	(64,540)	(15,182)	**(3,306)**	(3,490)
Total share of net assets	**49,850**	31,607	**5,187**	3,789

Company	Shares in subsidiary and associated companies £000
Cost and net book value	
At 1 July 2016 and 30 June 2017	**7,078**

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

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	
	2017	2016
	£000	£000
Raw materials	**25,743**	19,195
Work in progress	**1,761**	1,987
Finished goods	**8,245**	5,393
	35,749	26,575

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

Stock is stated after provisions for impairment of £1,867,000 *(2016: £1,836,000)*.

Company

The Company had no stock at 30 June 2017 *(2016: £nil)*.

14 Debtors

	Group	
	2017	2016
	£000	£000
Amounts falling due within one year:		
Trade debtors	**5,334**	5,509
Amounts owed by joint ventures	**3,790**	1,825
Amounts owed by associates and related parties	**1,869**	2,081
Other debtors	**3,368**	2,311
VAT debtor	**3,404**	-
Deferred taxation *(see note 17)*	**1,427**	4,943
Derivative financial instruments	**157**	-
Prepayments and accrued income	**11,112**	8,923
	30,461	25,592
Amounts falling due after more than one year:		
Property deposits	**15,869**	13,229
Deferred taxation *(see note 17)*	**3,612**	-
Total debtors	**49,942**	38,821

Amounts owed by joint ventures, associates, related parties and third party trade debtors falling due within one year are stated after provisions for impairment of £214,000 *(2016: £379,000)*.

	Company	
	2017	2016
	£000	£000
VAT debtor	**19**	-
	19	

Notes to the financial statements *(continued)*

15 Creditors: amounts falling due within one year

	Group	
	2017	2016
	£000	£000
Bank loans *(see below)*	**17,567**	10,068
Trade creditors	**15,782**	17,811
Amounts owed to associates and related parties	**2,469**	3,004
Corporation tax	**4,749**	3,270
VAT creditor	**5,077**	1,718
Other taxation and social security	**3,607**	3,644
Other creditors	**13,811**	10,900
Derivative financial instruments	**179**	614
Accruals and deferred income	**23,012**	16,394
	86,253	67,423

	2017	2016
	£000	£000
Bank loans		
Within one year	**17,567**	10,068
	17,567	10,068

The main bank loan arrangement at 30 June 2017 is a £35,000,000 revolving credit facility in the name of Lush Cosmetics Limited and expiring 1 August 2019. This current facility replaced the previous £40,000,000 revolving credit facility which expired on 19 July 2016. The amount drawn down on the new facility at 30 June 2017 was £8,521,000 *(2016: £2,321,000 – old facility)*. Cross guarantees exist between Lush Cosmetics Limited, Lush Ltd., Lush Retail Limited, Lush Manufacturing Limited, Lush BV, Lush GmbH, Lush Asia Ltd and Lush SASU.

Issue costs totalling £210,000, 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 2017 were £147,000 - these costs have been offset against the carrying value of the bank loan in creditors falling due within one year *(2016: £22,000 – unamortised issue costs in relation to old facility)*.

The balance above also includes amounts drawn down on various unsecured short term facilities taken out by Lush Japan KK with two Japanese banks to fund local working capital requirements. At the 30 June 2017 Lush Japan KK has balances of Y340,000,000 *(2016: Y1,000,000,000)* with The Bank of Yokohama, Y1,000,000,000 *(2016: Ynil)* with SMBC and Ynil *(2016: Y70,000,000)* with Mizuho Bank outstanding, which is equivalent to £9,193,000 at year end exchange rates. The interest rate charged on these loans range from TIBOR +0.15% to TIBOR +0.3% and the loans are repayable on demand.

Notes to the financial statements *(continued)*

15 Creditors: amounts falling due within one year *(continued)*

	Company	
	2017	2016
	£000	£000
Amounts owed to Group undertakings	**487**	138
Amounts owed to related parties	**176**	-
Other creditors	**117**	225
	780	363

Amounts owed by the Company to Group undertakings and related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16 Creditors: amounts falling due after more than one year

	Group	
	2017	2016
	£000	£000
Other creditors	**-**	139
	-	139

The Company has £nil *(2016: £nil)* creditors falling due after more than one year.

Notes to the financial statements *(continued)*

17 Provisions for liabilities

	Onerous lease provision £000	Dilapidation provision £000	Other provision £000	Deferred tax liability £000	Total £000
At 1 July 2016	142	4,317	-	-	4,459
Difference arising on exchange	-	377	-	(4)	373
Released during the year	-	(430)	-	-	(430)
Utilised during the year	(75)	(918)	-	-	(993)
Charged to the profit and loss account	5,068	1,809	1,710	493	9,080
At 30 June 2017	**5,135**	**5,155**	**1,710**	**489**	**12,489**

Onerous lease provision

The onerous lease provision £5,135,000 *(2016: £142,000)* 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 £5,155,000 *(2016: £4,317,000)* relates to future expenditure that is required on termination of property leases in the name of Lush group companies. The provision required on retail properties is calculated on leases that are within 3 years of termination and the provision is expected to be utilised as the leases terminate. The provision on manufacturing and office premises is calculated on all leases and is expected to be utilised as leases terminate.

Other provisions

The other provisions of £1,710,000 *(2016: £nil)* relates to all other liabilities expected to arise as a result of past events within the Group. The provision includes other ongoing employee related claims and liabilities. In the opinion of management the outcome of these claims will not give rise to any significant loss beyond the amounts provided at the balance sheet date.

Deferred Tax

	Deferred taxation asset £000	Deferred taxation liability £000
At 1 July 2016	4,943	-
Credit / (charge) to the profit and loss for the year	11	(493)
Foreign exchange adjustment	85	4
At 30 June 2017	**5,039**	**(489)**

The elements of the deferred taxation are as follows:	2017 £000	2016 £000
Differences between accumulated depreciation and capital allowances	1,052	1,088
Unrelieved tax losses carried forward	301	1,699
Other timing differences	3,197	2,156
	4,550	4,943

Notes to the financial statements *(continued)*

17 Provisions for liabilities *(continued)*

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 2017, we have not made a provision for UK or additional withholding taxes of approximately £2,585,000 *(2016:£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. A provision of £426,000 has been recognised in respect of the proportion of retained earnings in the North American business anticipated to be remitted to the UK in the foreseeable future.

The Group has gross unrecognised tax losses of £47,928,000 *(2016: £26,919,000)* at 30 June 2017. The largest components of unrecognised losses relate to our subsidiaries in Japan of £15,873,000 *(2016:£13,267,000)*, Italy of £7,167,000 *(2016: £5,513,000)*, Brazil of £13,441,000 *(2016: £6,826,000)* and Germany Manufacturing of £7,328,000 *(2016: £1,877,000)*. 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 £2,030,000 giving rise to an unrecognised deferred tax asset of £15,820,000 *(2016: £9,485,000)*.

It is anticipated that the losses in respect of our Spanish and Italian retail businesses, totalling £524,000, 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 £131,000.

The amount of the net reversal of deferred tax expected to occur next year is £1,427,000 *(2016: £1,530,000)* relating to the reversal of existing timing differences on tangible fixed assets, other timing differences and utilisation of losses.

18 Financial Instruments

The Group has the following financial instruments:

	2017		2016	
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit or loss				
- Derivative financial instruments *(see note 14)*		157		-
Financial assets measured at amortised cost				
- Trade debtors	5,334		5,509	
- Amounts owed by joint ventures	3,790		1,825	
- Amounts owed by associates and related parties	1,869		2,081	
- Other debtors	3,368		2,311	
- Property deposits	15,869		13,229	
		30,230		24,955
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative financial instruments *(see note 15)*		179		614
Financial liabilities measured at amortised cost				
- Bank loans	17,567		10,068	
- Trade creditors	15,782		17,811	
- Amounts owed to associates and related parties	2,469		3,004	
- Other creditors	13,811		10,900	
		49,629		41,783

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 risk arising for certain purchases made in foreign currency both within the Group and from third party suppliers. At 30 June 2017, the outstanding contracts are all due to mature within 12 months *(2016: 12 months)* of the year end. The Group is committed to sell £5,479,000 (*2016: £2,261,000*) for a fixed US dollar amount, to sell £2,546,000 *(2016: £nil)* for a fixed EUR amount, and is committed to sell Y141,059,000 (*2016: Y347,821,000)*, HKD7,008,000 *(2016: HKD10,954,000)*, EURnil *(2016: EUR400,000)* and AUD2,258,000 *(2016: AUD1,703,000)* 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 £22,000 *(2016: fair value liability of £614,000).*

19 Called up share capital

Group and Company

	2017	2016
	£000	£000
Allotted, called up and fully paid		
8,219 *(2016: 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	**Merger reserve**	**Other reserves**
	£000	**£000**	**£000**
Group			
At 1 July 2016 and 30 June 2017	3	13,988	142
Company			
At 1 July 2016 and 30 June 2017	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 other reserve relates to a balance that arose when the Company was set up and acquired the share capital of Lush Ltd and its subsidiaries via a share for share exchange in the year ended 30 June 2001, which was accounted for under the merger method.

Notes to the financial statements *(continued)*

21 Non-controlling interests

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

	2017 £000	2016 £000
Lush Retail Limited	3,165	1,758
Lush Fresh Handmade Cosmetics LLC	1,416	1,168
Lush MENA Trading Co	(398)	(369)
Happy Days WLL	149	-
Seebimeri OU	34	9
B Never too Busy to be Beautiful Limited	-	(8)
Lush Bulgaria O.D.D	17	6
Lush Baltia	-	(101)
LB-LIT UAB	-	(87)
Lush Peru SAC	(34)	(20)
Lush Swedru Ghana Limited	(60)	(48)
	4,289	2,308

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

	2017 £000	2016 £000
Lush Retail Limited	1,404	914
Lush Fresh Handmade Cosmetics LLC	390	387
Lush MENA Trading Co	(24)	(138)
Happy Days WLL	75	-
Seebimeri OU	24	47
B Never too Busy to be Beautiful Limited	8	26
Lush Bulgaria O.D.D	11	5
Lush Baltia	106	32
LB-LIT UAB	91	(25)
Lush Peru SAC	(14)	(18)
Lush Swedru Ghana Limited	(12)	(12)
	2,059	1,218

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

	2017 £000	2016 £000
At 1 July	2,308	1,607
Total comprehensive income attributable to non-controlling interests	2,069	1,319
On acquisition / disposal of non-controlling interests	80	(268)
Dividends paid to non-controlling shareholders	(168)	(350)
At 30 June	4,289	2,308

Notes to the financial statements *(continued)*

22 Notes to the cash flow statement

	2017 £000	2016 £000
Reconciliation of operating profit to net cash flow from operating activities		
Profit for the financial year	**43,625**	30,035
Tax on profit	**29,857**	13,187
Net interest expense	**763**	755
Income from interest in associates and joint ventures	**(51,550)**	(28,356)
Operating profit	**22,695**	15,621
Amortisation of goodwill and other intangible assets	**1,935**	1,367
Impairment of intangible assets	**277**	80
Depreciation of tangible assets	**15,956**	10,639
Impairment of tangible assets	**1,426**	1,177
Loss on disposal of tangible and intangible assets	**662**	800
Increase in stock	**(9,174)**	(6,307)
Increase in debtors	**(11,460)**	(5,115)
Increase in creditors	**10,148**	8,877
Increase in provisions for liabilities	**7,541**	2,323
Exchange differences	**(875)**	(2,178)
Net cash flow from operating activities	**39,131**	27,284

23 Commitments and contingent liabilities

a) The Group had capital commitments of £3,268,000 as at 30 June 2017 *(£nil as at 30 June 2016)*. The Company had no capital commitments at 30 June 2017 or 30 June 2016.

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

	Property		Plant and machinery	
Group	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Payments due:				
Within one year	**54,606**	46,129	**224**	201
In the second to fifth years inclusive	**137,351**	113,255	**232**	402
Over five years	**55,487**	44,381	**-**	-
	247,444	203,765	**456**	603

Company

The Company had no non-cancellable operating leases as at 30 June 2017 *(2016: none)*.

c) **Contingent liabilities**

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 2017.

- 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 £3,000 *(2016: £16,000)*.

Notes to the financial statements *(continued)*

23 Commitments and contingent liabilities *(continued)*

c) Contingent liabilities *(continued)*

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 15)*. The guarantee has been secured by way of fixed and floating charges over the assets of Lush Cosmetics Limited, Lush Ltd., Lush Retail Limited, Lush Manufacturing Limited, Lush BV, Lush GmbH, Lush Asia Ltd and Lush SASU. The amount of borrowings outstanding at 30 June 2017 was £8,521,000 *(2016: £2,321,000)*.

The Group has also issued guarantees to third parties over lease arrangements and other transactions. The amount guaranteed at 30 June 2017 was £3,471,000 *(2016: £1,903,000)*.

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 contributions payable during the year. There is a net accrual amount outstanding of £119,000 at the year end *(2016: £295,000)*.

Lush Italia SRL has an accrual for £81,000 *(2016: £97,000)* 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 £24,000 *(2016: £3,000)* 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 £45,000 *(2016: £80,000)*. Mr M Constantine is a director of Lush Cosmetics Limited, Lush Ltd., Lush Retail Limited and Lush Manufacturing Limited. Mrs M Constantine is a director of Lush Cosmetics Limited, Lush Ltd. and Lush Manufacturing Limited.

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)
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Lush Handmade Cosmetics Limited	**38,609**	29,135	**-**	-	**36**	(3)	**3,795**	1,824
Lush US Inc	**-**	-	**-**	-	**105**	13	**(5)**	1
Lush Russia LLC	**4,479**	3,401	**(328)**	328	**(4)**	4	**163**	(904)
Yulshimhee Co. Limited	**7,357**	5,098	**1,935**	1,200	**486**	373	**1,147**	852
Lush Switzerland AG	**2,695**	2,274	**397**	262	**62**	27	**323**	180
Lush Panama Inc	**109**	72	**-**	-	**2**	2	**39**	4
Sash Natural Pte Limited	**59**	385	**-**	-	**17**	71	**-**	34
Fersk Kosmetikk AS	**610**	454	**-**	-	**64**	51	**57**	33
Lush Ukraine TZOV	**484**	351	**-**	-	**3**	1	**33**	(8)
UKM Cosmeticos Naturales, S.A de C.V	**425**	239	**-**	-	**10**	4	**38**	-
Green Bubbles Cosmetics Propriety Limited	**932**	616	**-**	-	**21**	9	**69**	51
Cosmetic Warriors Limited	**-**	13	**(15,023)**	(11,719)	**9,514**	(10)	**(2,052)**	(1,333)
Ping Pong Sourcing Limited	**-**	-	**-**	-	**11**	-	**(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.

Company

During the year the Company was recharged costs of £176,000 *(2016: £nil)* by Cosmetic Warriors Limited, a related party. At 30 June 2017 the Company owes a balance of £176,000 (*2016: £nil*) to Cosmetic Warriors Limited. The Company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Group.

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 2017, 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:

Subsidiary undertakings

Name of undertaking	Registered Office	Principal Activity	Proportion of shares and voting rights held by the Group
Lush Retail Limited	29 The High Street, Poole, Dorset, BH15 1AB, England	Retailer of cosmetic products	Ordinary - 87%
Lush Dublin Limited	116 Grafton Street, Dublin 2, Republic of Ireland	Retailer of cosmetic products	Ordinary – 87%
Lush Distribution Limited	1 Market Close, Poole, Dorset, BH15 1NL, England	Distribution of cosmetic products	Ordinary – 87%
Lush Manufacturing Limited	29 The High Street, Poole, Dorset, BH15 1AB, England	Manufacturer of cosmetic products	Ordinary - 100%
Lush Global Digital Limited	29 The High Street, Poole, Dorset, BH15 1AB, England	Branding and digital service provided	Ordinary – 100%
Lush MENA Trading Co	Office 502,Sakura Plaza, Madinah Road, Al Slamah Dist, Jeddah 21567, P.O Box 70093, Saudi Arabia	Retailer of cosmetic products	Ordinary – 75%
Lush Peru SAC	Jr. Purus Mza. 85 Lote, 8 (Altura De Estadio De Yarina), Ucayali, Coronel Portillo, Yarinacocha, Peru	Manufacturer of raw materials	Ordinary – 90%
Lush Swedru Ghana Limited	DS25/1 Dechesu, Agona, Swedru, Ghana	Manufacturer of raw materials	Ordinary – 80%
Lush (New Zealand) Limited	Unit A, 162, Foundry Road, Silverdale, 0932, New Zealand	Retailer of cosmetic products	Ordinary - 100%
Lush Australasia Manufacturing Pty Limited	Unit A1, 76 Biloela Street, Villawood, NSW 2163, Australia	Manufacturer of cosmetic products	Ordinary - 100%
Lush Australasia Retail Pty Limited	Unit A1, 76 Biloela Street, Villawood, NSW 2163, Australia	Retailer of cosmetic products	Ordinary – 100%
Lush Japan KK	4027-3 Nakatsu, Aikawamachi, Aiko-gun, Kanagawa-ken, Japan	Manufacturer and retailer of cosmetic products	Ordinary – 100%
Lush GmbH	Klosterstraße 64, 10179 Berlin, Germany	Retailer of cosmetic products	Ordinary – 100%
Lush SASU	77 Boulevard Voltaire, 75011, Paris, France	Retailer of cosmetic products	Ordinary – 100%
Lush NV	Nieuwstraat 22, 1000 Brussels Belgium	Retailer of cosmetic products	Ordinary – 100%
Lush Cosmetics S.L	Alcala, n° 104, 28009, Madrid, Spain	Retailer of cosmetic products	Ordinary – 100%

Notes to the financial statements *(continued)*

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

Subsidiary undertakings

Name of undertaking	Registered Office	Principal Activity	Proportion of shares and voting rights held by the Group
Lush BV	Kalverstraat 121-123, 1012 PA, Amsterdam, Netherlands	Retailer of cosmetic products	Ordinary - 100%
YRC Limited	L07, Second Floor, Deira City Centre, Deira, Dubai, PO BOX 62627, United Arab Emirates	Holding company	Ordinary – 75%
Lush Fresh Handmade Cosmetics LLC	L07, Second Floor, Deira City Centre, Deira, Dubai, PO BOX 62627, United Arab Emirates,	Retailer of cosmetic products	Ordinary – 75%
Lush Muscat LLC	NG26, Muscat City Centre Mall, Muscat, P.C. 11, Sultanate of Oman	Retailer of cosmetic products	Ordinary – 100%
Lush Sweden AB	Hammarby Fabriksväg 43, 12030 Stockholm, Sweden	Retailer of cosmetic products	Ordinary - 100%
Lush Italia SRL	Via Atto Vannucci 13, 20135 Milan, Italy	Retailer of cosmetic products	Ordinary - 100%
Seebimeri OU	Narva mnt 5, Kesklinna district, Tallinn city, Harju county, 10117, Estonia	Retailer of cosmetic products	Ordinary - 50%
B Never too Busy to be Beautiful Ltd	29 The High Street, Poole, Dorset, BH15 1AB, England	Dormant	Ordinary - 75%
Lush Hungary Kft	1052, Kristóf tér 3, Budapest, Hungary	Retailer of cosmetic products	Ordinary – 50%
Lush Fresh Handmade Cosmetics D.O.O.	22 Atanasija Pulje, Belgrade, 11080, Serbia	Dormant	Ordinary - 50%
SWIL AG	SWIL AG, Ammannsmatt 8, 6300 Zug, Switzerland	Holding company	Ordinary – 100%
Nature & You Lda	Amoreiras Shopping Center, Loja 1113, Av. Engenheiro Duarte Pacheco, 1070 103, Lisbon, Portugal	Retailer of cosmetic products	Ordinary – 100%
LCM (Lush Chile Manufacturing) SA	1387, av. Americo vespucio, Santiago, Chile	Dormant	Ordinary - 99%
Lush Asia Limited	Unit 01-06, 33/F, Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong	Retailer of cosmetic products	Ordinary – 100%
Lush Manufacktura DOO	5 Augusta Šenoe, 0434, Strmec, Croatia	Manufacturer of cosmetic products	Ordinary – 100%
SWIL Brasil Comerica de Cosmetics e Produtos de Beleza Ltda	Alameda Campinas, 1063, São Paulo, São Paulo, 01404-001, Brazil	Retailer of cosmetic products	Ordinary – 99%

Notes to the financial statements *(continued)*

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

Subsidiary undertakings

Name of undertaking	Registered Office	Principal Activity	Proportion of shares and voting rights held by the Group
LIWS Industria de Cosmeticos Ltda	Rua José Ramos Guimarães, 279, São Paulo, Bom Jesus dos Perdões, 12955-000, Brazil	Manufacturer of cosmetic products	Ordinary – 99%
Lush Manufacturing GmbH	209-215 Bonner Straße, 40589, Dusseldorf, Germany	Manufacturer of cosmetic products	Ordinary – 100%
Happy Days WLL	Shop 115, Block 428, Building 2102, Road 2825, Al Seef, Kingdom of Bahrain	Retailer of cosmetic products	Ordinary – 93.75%
Lush Bulgaria O.D.D.	Druzhba, bl. 284 vh. 3, et. 7, ap. 4 Sofia, 1582, Bulgaria	Retailer of cosmetic products	Ordinary – 50%
Lush GmbH	Barnabitengasse 6/16, 1060 Wien, Vienna, Austria	Retailer of cosmetic products	Oridnary – 100%

Entities accounted for as Joint Ventures

Name of undertaking	Registered Office	Principal Activity	Proportion of shares and voting rights held by the Group
Lush USA Inc	3064 Silver Sage Drive, Suite 150, Carson City, NV 89701, USA	Retailer of cosmetic products	Ordinary – 53.2%
Lush Internet Inc	3064 Silver Sage Drive, Suite 150, Carson City, NV 89701, USA	Retailer of cosmetic products	Ordinary – 53.2%
Lush Handmade Cosmetics Limited	2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3, Canada	Manufacturer and retailer of cosmetic products	Class A – 43.96%

Notes to the financial statements *(continued)*

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

Associate undertakings

Name of undertaking	Registered Office	Principal Activity	Proportion of shares and voting rights held by the Group
Lush Russia LLC	9 Skakovaya str, office 405, Moscow, 125040, Russia	Retailer of cosmetic products	Ordinary - 35%
Yulshimhee Co. Limited	6F, 138, Seoun-ro, Seocho-gu, Seoul, Republic of Korea	Retailer of cosmetic products	Ordinary - 25%
Prosrednik Promet D.O.O.	Petrinjska 4, 10 000 Zagreb, Croatia	Retailer of cosmetic products	Ordinary - 35%
Lush Ukraine TZOV	Baseyna 15, Kyiv, 01004, Ukraine	Retailer of cosmetic products	Ordinary – 35%
Fersk Kosmetikk AS	Guldalsgata 38, NO-1467, Strømmen, Norway	Retailer of cosmetic products	Ordinary - 35%
Lush Kazakhstan LLC	Shevchenko Str., 157, Almalinskiy,District, Almaty, 050008, Kazakhstan Repulic	Retailer of cosmetic products	Ordinary - 35%
Lush Panama Inc	Samuel Lewis Avenue, 55 East St, Optima Tower, 25th floor, Obarrio, Panama	Retailer of cosmetic products	Ordinary - 35%
UKM Cosmeticos Naturales, S.A. de C.V	Félix Berenguer 125-B, Lomas Virreyes, CP 11000, CDMX, México	Retailer of cosmetic products	Ordinary - 35%
Lush Switzerland AG	Hinterbergstrasse 56, 6312 Steinhausen, Switzerland	Retailer of cosmetic products	Ordinary - 35%
Sash Natural Pte. Ltd	207 River Valley Road, Unit 1852, 238275, Singapore	Retailer of cosmetic products	Ordinary - 35%
Green Bubbles Cosmetics Proprietary Limited	Unit 32 Roeland Square, Roeland Street, Cape Town, 8001, South Africa	Retailer of cosmetic products	Ordinary - 35%
Natha Pure Co. Limited	102/77 M. Laddarom Y44,Saphang Sung, Bangkok 10240, Thailand	Retailer of cosmetic products	Ordinary - 35%
Extracts4Life Pvt Limited	17A/3 Abid Majeed Road, Lahore Cantt, Pakistan	Manufacturer of raw materials	Ordinary - 33%

28 Post balance sheet events

On 16 November 2017 the directors of the Company agreed to issue 913 new ordinary £1 shares in the Company, increasing the called up share capital to 9,132 ordinary £1 shares. These shares have subsequently been purchased for a consideration of £913 by The Lush Cosmetics Employee Benefit Trust ("EBT"), a discretionary trust set up to acquire and hold Company shares on behalf of the employees of the Lush Group as beneficiaries of the trust and to protect and promote the Lush business ethics in accordance with the Lush Ethical Charter. The deed to establish the EBT was executed on 4 August 2017 and K Bygrave and Mrs M Constantine have agreed to act as the original first trustees for the new trust.

See note 9 for details of post balance sheet dividends declared by the Company.