

Lush Retail Limited

Annual report and financial statements

Registered number 03084750

30 June 2022



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Strategic Report

For the year ended 30 June 2022

The directors present their Strategic Report for Lush Retail Limited (“the Company”) for the year ended 30 June 2022.

Principal Activities

The Company’s principal activity is the retail of fresh handmade cosmetics through a network of shops in the United Kingdom and our web platform, as part of the Lush Cosmetics Group (the “Group”, being Lush Cosmetics Limited and its subsidiaries, associates and joint ventures).

Review of Business

	2022	2021	Movement
	£m	£m	£m
Turnover	139.6	122.4	17.2
Profit before tax	5.3	18.7	(13.4)

Turnover in the year to 30 June 2022 was £139.6m, which represents a 14% increase on the prior year. The year ended 30 June 2022 was the first financial year since 2019 in which there were no Government mandated closures due to Covid-19. Therefore, the majority of our increase in sales has come from being able to trade through both our physical and digital retail channels for the full year. Our physical stores made up 80% of total sales, compared to 56% in the previous financial year, as shoppers returned back to high streets. Our digital channel still retained a higher proportion of sales when compared to pre-pandemic, at 20% compared to 12% in 2019.

Despite having a full year with no forced closures, it came with a new set of challenges. In the first half of the year, we began to see sales recover as Covid restrictions were lifted and sales continued to be strong throughout the Christmas period, with customers particularly excited about our Christmas gift options. Whilst still recording growth of 13% against the prior year, sales in the second half of the year fell below our expectations as consumer sentiment began to be impacted by inflationary pressures which were compounded by the war in Ukraine.

Operating profit of £5.3m in the year represents a £13.4m decrease from the prior year, however the result is heavily impacted by increased onerous lease and impairment charges (increases of £5.3m and £2.0m respectively) and a further £3.0m as a result of a change in the Lush Group transfer pricing agreements (see below).

The result of all our Transfer Pricing adjustments is that we are paying taxes in most markets we operate in, aligning with our Ethical Tax Policy; “We commit to paying the proper amount of tax on time in all countries where Lush operates”. To ensure that our policy continually complies with the arm’s length principle and all relevant laws, we review and update our policy regularly with support from external advisors who specialise in Transfer Pricing. In response to the significant changes taking place within the Group during the year, and given recent feedback received by tax authorities globally, a review of our policy was undertaken, and resulting updates were implemented from 1 July 2021.

Aside from these adjustments, the remaining decrease in profit (£2.5m) is mainly attributable to lower levels of government support (in the form of furlough payments, rates relief and business grants) as the country emerged from the pandemic, whilst the movement of sales from our digital channel to our stores also had an impact due to the higher margins that are generated online. Against pre-pandemic performance the underlying profitability has improved, demonstrating the continued work that was started throughout the pandemic to implement and negotiate our own savings and efficiencies to ensure that both our physical and digital businesses could thrive in the years to come. Our store managers continued to flex staffing levels in line with sales and customer shopping habits, leading to a saving in staff costs compared to our staffing as a percentage of sales in the year ended 30 June 2019 (our last full financial year before the pandemic). In addition, rents have fallen by nearly £5.0m, as we foster good relationships with Landlords who support our business recovery and engage with our principles.

Strategic Report (*continued*)

Strategy and Future outlook

The new financial year has seen a continuation of inflationary factors impacting consumer sentiment along with a very tumultuous time in UK politics. Sales growth in the first quarter was -6%, however this recovered to +5% in the second quarter to December illustrating the strength of the Brand during gift giving seasons; in fact our December sales were the highest we have ever recorded.

Our overarching strategy for the rest of the financial year is to 'Leave the world lushier than we found it' by continuing to provide an oasis of kindness for our customers and a product for every need.

Key Performance Indicators (KPIs)

The Company uses several KPIs to monitor the performance of the business, the main indicators being our turnover and operating profit which are stated in the table above. In addition we also monitor the following indicators:

LFL (like for like) - this is monitored on a shop basis, a total retail and total digital basis and also from a total Company perspective. It is a sales growth measure which excludes the impact of new or closed stores.

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.

We also place great emphasis on the mystery shop visits and results which are scored out of 100%. This is carried out by an external company who are able to facilitate mystery shops in all of our markets, whilst being managed and analysed internally.

Employment Policies and Corporate Social Responsibility

At Lush, we remain committed to a fair wage at all levels of the business and fully support the UK Living Wage Foundation's approach of a fair day's work deserving a fair day's pay. With the exception of a pause granted during the pandemic, we have held accreditation for the Living Wage since April 2017, and implemented the new rate of £9.90 per hour in April 2022 and further increased to £10.90 in April 2023. These rates, set by the independent Living Wage Foundation, is our minimum Lush UK hourly rate for all permanent and temporary staff, irrespective of age, and is +40p higher than the UK Government's "over-23" National Living Wage rate.

Our UK parental pay policy pays 6 months' full pay and also provides childcare funding to enable more parents to return to work after having or adopting children. Secondary carers within our workforce also receive full pay for 4 weeks leave. In both cases our policies extend to cover those taking shared parental leave.

Whilst these commitments have an impact on our profitability we believe paying our staff fairly is the right thing to do and take a long-term view that anticipates a return on this investment over the years to come.

Employee Benefit Trust

As employees of the wider Lush Group, all employees of the Company benefit from being members of the Lush Cosmetics Employee Benefit Trust (EBT). 10% of the shares in the Lush Group are held on behalf of our staff in the EBT. We believe the Trust, which was established in 2017, will protect the prosperity of the Lush business and the company ethics through the Lush Ethical Charter, while recognising the contribution our employees make to its success. The EBT has grown in size, profile and trust within the business and is developing to successfully fulfil its intended purpose for the business and our staff.

The EBT and its representatives play a pivotal role in facilitating two-way communication between all Company colleagues and the business continuing to provide vital, timely insight into staff sentiment while encouraging equal opportunity for contribution in making Lush the company we want it to be. We enjoy continued engagement through our first staff only publication 'The Lush Insider', regular operational and performance updates and direct communications from leadership through a multitude of in-person and digital channels including all-staff events which continue to ensure knowledge and information is shared directly with all colleagues.

We are still in the early development stages of our Employee Ownership journey. We continue to build on our knowledge and experience to further develop our Employee Benefit Trust and employee ownership culture at Lush with the aim of effectively representing employee voice and preserving Lush's ethics and independence. Over time a future EBT shareholding of 35% is envisaged.

Strategic Report (*continued*)

Employment Policies and Corporate Social Responsibility (*continued*)

Diversity & Inclusion

The Company is committed to inclusive values and behaviours, practising equity, and diversifying the business. We continue to take a collective approach to actioning 'All Are Welcome Always' and Lush becoming the Company we want it to be. The Company takes all reasonable steps to ensure that the same employment conditions are applied regardless of gender, race, ethnicity, physical appearance, religion, neurodiversity or disability.

Community networks continue to grow and evolve, allowing employee participation in ED&I direction and sharing valuable insight into employee engagement and feedback with the business. The UK and Ireland community networks started their second term in September 2022. These include active networks for Disability & Chronic Illness, the Global Majority, LGBTQIA+, Menopause, Menstruation, Neurodiversity, Parents & Carers and Trans & Non-Binary.

Principal Risks and Uncertainties

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

Economic climate – Our business is dependent on the retail market of the UK and the general perceptions of the Lush brand. We remain alert to changes in customers' sentiment and shopping habits, as well as economic and political factors in the UK. We continue to monitor trading patterns in the UK around customer sentiment in the market as a result of inflationary pressures and the so called 'cost of living crisis'.

Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

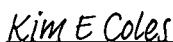
The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the Company will have sufficient funds to meet its working capital requirements for that period. The forecasts assume the continued cash pooling arrangement between the Company and fellow subsidiary undertakings Lush Ltd, Lush Manufacturing Limited, Lush Dublin Limited and Lush Global Digital Limited whereby cash surpluses are remitted to Lush Ltd to optimise Lush Cosmetics Limited ("Lush Cosmetics Group") cash management and cash deficits are similarly covered by Lush Ltd. Lush Ltd has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts, other than to continue to manage the Lush Cosmetics Group cash pooling arrangement.

Whilst the directors believe that the forecasts are reasonable, they recognise that there remains the possibility of further downside should consumer sentiment deteriorate further and that there is therefore a need to consider the ability of the cash pooling arrangement to support the Company in such a scenario. The nature of the Company is that it is reliant on the activities of fellow Lush Cosmetics Group companies for its supply chain and treasury management and so stress testing of forecasts and cash levels has been performed at Group level. The directors of Lush Group have not identified a material uncertainty in relation to going concern in the consolidated 30 June 2022 annual report and financial statements.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

We have considered the impact of other financial risks such as credit risk, price risk, interest rate risk, liquidity 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 26 June 2023 and signed on its behalf by:



Kim E Coles (Jun 26, 2023 11:07 GMT+1)

Mrs K Coles
Director

Directors' Report

The directors present their report and the audited financial statements for the year ended 30 June 2022.

The Company is an 86.98% owned subsidiary of Lush Ltd and is included in the consolidated financial statements of Lush Cosmetics Limited which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under section 400 of the Companies Act 2006.

Results and dividends

There was a profit for the year after tax amounting to £4.6m (2021: profit after tax of £15.4m).

No dividends have been proposed or paid for the year ended 30 June 2022 (2021: £nil). The future development of the Company has been addressed within the Strategic Report on page 2.

Directors and directors' interests

The directors who served during the year, and up to the date of signing these financial statements, were as follows:

Mr M Constantine
Mrs K Coles
Mr P Wheatley
Ms D Clark (appointed 18 January 2023)
Ms E Peters (appointed 18 January 2023)

Directors benefitted from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Statement of disclosure of information to Auditor

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

Independent auditor

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

Section 172 Reporting Statement

Under section 172 of the Companies Act, directors are now required to make a statement explaining how we have adhered to certain duties as members of the board and explain how we have acted in the best interests of the Company. The Company is a subsidiary of the Lush Cosmetics Limited Group and, as would be expected of a large international group, policies and procedures are developed and enacted at Group level. The below S172 statement is therefore from a Group perspective.

We as directors have acted in a way as we consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,

Every decision we make as a Board is to preserve the longevity of the business, and ensure we are working towards our long-term master plan of creating a cosmetics revolution to save the planet. We hold weekly leadership meetings to discuss business changes and consider the longer-term consequences of these in helping us to meet the goals of the master plan. By making all aspects of our 'secret' master plan public we can be held accountable to it and demonstrate that we are thinking longer term. We believe in the right to make a profit, but when making major business considerations and adjustments, all aspects of our core values are taken into consideration.

We have additional decision-making processes for Pay and Property Projects given the investment levels required. Our Pay Circles support the development of proposals, approves increases for Shop and Manufacturing staff (up to £100k), and monitor progress towards our aspiration of paying a Living Wage in every market we operate in. This aspiration requires ongoing careful planning to ensure the business model can sustain higher rates of pay whilst preserving the long-term stability of our business. Our stringent Property Appraisal process ensures that the Global Property and Retail team, in conjunction with the shop manager, work thoroughly on the Business Case until they are confident in the proposal. This is then passed on to the local UK directors for approval, following final approval from the Global Property Director and Global Retail Director on all projects. Throughout this there is room for on the ground research and healthy debate. A record is kept of all queries and approvals.

Directors' Report (continued)

Section 172 Reporting Statement (continued)

A separate Retail Property Circle was also established during the year to separately sign off on new shops, relocations ("upsizes") and refits exceeding £100k, that align with our long-term strategic property goals as we continue to invest in our store portfolio. Previously these had been signed off at the larger bi-weekly Leadership Meetings referred to above. The Retail Property Circle meetings provide a forum to debate and challenge proposals presented by our Retail markets and ultimately approves or rejects these proposals.

(b) the interests of the company's employees,

Our people are what makes the Company what it is, and therefore our employees' interests are considered at every turn. We are very proud of our Employee Benefit Trust which helps empower our staff and protect their interests - Lush has been 10% Employee owned since 2017. Along with the other shareholders of the business, the Lush EBT owns a proportion of the Lush business, and 5 trustees look after the trust on behalf of all staff. The board appreciates the contribution that every member of staff makes to the business and having all of our staff as beneficiaries of the EBT recognises their efforts and commitment in making us the Company that we are.

The EBT constitution states that every member of staff has access to a bonus scheme and that all staff will earn above government minimum wages. As stated above, the Pay Circle and local leadership teams continue to work towards achieving our goal to become a Global Real Living Wage payer.

We have our own section of the website to aid dialogue with staff – 'weare.lush.com'. This website covers all aspects of our business to ensure staff are informed of all the latest developments. We have also created the 'Lush Insider' magazine, an internal magazine circulated to all staff to answer questions arising through the EBT.

(c) the need to foster the company's business relationships with suppliers, customers and others,

We always wish to conduct our business so that all people who have contact with us, from our suppliers through to our staff and customers, benefit from their contact with Lush.

For many years we have sought to maintain a transparent supply chain which means often switching to direct sourcing, developing 'on the ground' relationships and co-developing growing projects. We have seen that fostering good, honest, long-term relationships with suppliers is key to ensuring good quality control of ingredients as well as making sure all sources comply with our supplier policies (People Care, Earth Care and Fair Share Policy). We now also use supplier webinars to provide our suppliers with transparent updates on the health of our business as well as our upcoming goals.

We maintain strong customer relations and believe the customer is always right. Our customers enjoy effective products produced without exploitation of people or planet, safe in the knowledge that all ingredients are vegetarian and that we do not test any of our products or ingredients on animals. In our shops, we encourage our staff to be day makers and turn our stores into an "ocean of kindness". Through our Random Acts of Kindness programme, staff are encouraged to gift one product a week (daily at Christmas) to help make a customer's day.

(d) the impact of the company's operations on the community and the environment,

Community and the environment are at the heart of everything we do – we don't just want to negate our impact, put bluntly we want to make a positive difference in the world, leaving the world Lusher than we found it. These initiatives are fully supported by the members of the Board. For example, we actively give back to the community through our giving programmes like Charity Pot, funding animal rights, human rights and the environment and Re:fund supporting ecological and social regeneration. Board members also work closely with and get guidance from the environment, buying and people teams to take these issues into the heart of decision making.

We continue to actively fight against animal testing through promoting alternative in-vitro testing and influence the market to address over packaging issues through innovation like 'naked' products. We take responsibility for our packaging with our 'bring it back' scheme, where customers get 50p towards their next Lush purchase for returning any of our plastic packaging which is then fully recycled. Alternatively, customers can still exchange 5 pots for a free fresh face mask, honouring our old scheme. These are now active in all main markets.

When it comes to addressing the climate and ecological emergencies, we have been prioritising the use of renewable electricity in our main markets. However, most of our impact and opportunity lie in our supply chain. We have a commitment to life, and through the sourcing of ingredients we continue to help develop social enterprises, restore wildlife corridors, and encourage the move away from highly hazardous pesticides. There are two priorities for us, protecting high biodiversity habitats and supporting transition to regenerative agriculture.

Directors' Report (continued)

Section 172 Reporting Statement (continued)

The former we do through partnerships with conservation organisations and communities working in places like Sumatra, Gola Rainforest, or the Amazon. The latter we do through partnering with farmers practising agroecology or agroforestry, funding and encouraging the transition to more planet-friendly practices through our insetting strategy. Our insetting programme supports greenhouse gas emissions reductions in the supply chain, rather than using offsets. This was enthusiastically signed off by the board last year.

(e) the desirability of the company maintaining a reputation for high standards of business conduct,

As members of the Board, it is imperative for us to maintain a high reputation in everything we do. When conducting business, such as buying and, we have put a number of policies in place to ensure that best practice is always followed, whether it be workers' rights, transport, the environment or animal protection. All of these policies can be found on our website.

We believe that all business should be ethical, and all trade should be fair. Individual companies should not stand out simply by not being damaging or unfair. No company should be trading from an unethical position and society has a right to expect as the norm fairness and resource stewardship from the companies that supply them. We always act in a way that supports this and believe that we should pay our fair share of taxes in the countries in which we operate.

(f) the need to act fairly as between members of the company.

In essence, what this means is that shareholders ('members') are treated equally with regards to access to the financial information that they are entitled to in their capacity as shareholders, no matter the size of the shareholding, whether it is 1%, 10% or 80%. We are a privately held, family run business and there is shareholder representation on the Board, along with the EBT, and all decisions are made in the interests of the Company, taking every view into account.

Charitable contributions

The Company continues to raise funds through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. 100% of the retail price of the product, less VAT, is donated to a variety of good causes. In this financial year our Company Charity Pot sales raised £950k (2021: £489k). Donations are made from a pool of Charity Pot sales generated by the Company and its subsidiary, Lush Dublin Limited. Donations from this combined pool totalled £795k (2021: £640k).

Our charitable giving focus remains on innovative, effective giving through the 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 prioritise work to address the root causes of issues through campaigns, education and activism. This year we contributed £195k to support charities in Ukraine. 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.

Matters covered in the Strategic Report

The Company has chosen in accordance with Companies Act 2006, s414C to set out in the Company's Strategic Report information required by Schedule 7 to the Large and medium-sized Companies and Groups (Accounts and reports) Regulations 2008. Certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 1 to 3. These matters relate to the Principal activities, business review and principal risks and uncertainties facing the Company.

On behalf of the board

Kim E Coles

Kim E Coles (Jun 26, 2023 11:07 GMT+1)

Mrs K Coles
Director

26 June 2023

29 High Street
Poole
Dorset
BH15 1AB

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED

Opinion

We have audited the financial statements of Lush Retail Limited ("the Company") for the year ended 30 June 2022 which comprise the Statement of comprehensive income, Balance Sheet, Statement of changes in equity and related notes, including the accounting policies in note 19.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its Profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The availability of financial and operational support from other Lush group companies as the Company is dependent on the group's ability as a whole to continue to as a going concern; and
- A sustained economic downturn in the high street or digital retail sector.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in downside scenarios relevant to liquidity; in particular in relation to revenue by comparing to pre COVID 19 performance, recent revenue growth and historical trends in severe economic situations.
- Assessing the working capital assumptions inherent in the forecasts to actual recent experience and existing supplier/customer arrangements.
- We also compared past budgets to actual results to assess the directors track record of budgeting accurately.

Since the entity may need financial support from other group entities as the entity acquires all inventory for resale from within the group, and so would not be able to continue in business if the group ceased this trade, we assessed the risk that this support would not be available. We inspected letters received by the directors indicating the group's intention to provide this support, examined financial statements/internally provided projections to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.

We considered whether the going concern disclosure in note 19 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED (continued)

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 19 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, members of management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.
- Analysis of reported sales in the two weeks pre and post year end and investigation of any unusual trends or fluctuations.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED (*continued*)

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: consumer rights legislation, health and safety, data protection laws, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED (continued)

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Vivek Kohli

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Chandlers Ford
SO53 3TG

26 June 2023

Statement of comprehensive income
for the year ended 30 June 2022

	<i>Note</i>	2022 £000	2021 £000
Turnover	<i>1</i>	139,618	122,384
Cost of sales		(48,967)	(45,717)
Gross profit		90,651	76,667
Operating expenses		(87,110)	(71,272)
Other income	<i>2</i>	1,798	13,264
Profit before taxation		5,339	18,659
Tax charge	<i>5</i>	(781)	(3,242)
Profit and total comprehensive income for the year		4,558	15,417

All results relate to continuing activities.

The accompanying notes form an integral part of these financial statements.

Balance sheet
As at 30 June 2022

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	6	15	49
Tangible assets	7	4,487	7,377
Investments	8	-	-
		<u>4,502</u>	<u>7,426</u>
Current assets			
Stocks	9	2,156	2,065
Debtors (including £2,163k (2021: £2,254k) due after more than one year)	10/11	50,682	41,284
Cash at bank and in hand		1,988	1,737
		<u>54,826</u>	<u>45,086</u>
Creditors: amounts falling due within one year	12	<u>(22,995)</u>	<u>(26,313)</u>
Net current assets		<u>31,831</u>	<u>18,773</u>
Total assets less current liabilities		<u>36,333</u>	<u>26,199</u>
Provisions for liabilities	13	<u>(7,737)</u>	<u>(2,161)</u>
Net assets		<u>28,596</u>	<u>24,038</u>
Capital and reserves			
Called up share capital	14	9	9
Share premium account		767	767
Capital redemption reserve		1	1
Capital reserve		10,889	10,889
Retained earnings		16,930	12,372
Total equity		<u>28,596</u>	<u>24,038</u>

The notes on pages 15 to 29 are an integral part of these financial statements.

These financial statements on pages 12 to 29 were approved by the Board of Directors on 26 June 2023 and signed on its behalf by

Kim E Coles

Kim E Coles (Jun 26, 2023 11:07 GMT+1)

Mrs K Coles
Director

Lush Retail Limited
Registered Number - 03084750

Statement of changes in equity
for the year ended 30 June 2022

	Notes	Called up share capital	Share premium account	Capital redemption reserve	Capital reserve	Retained earnings	Total equity
		£000	£000	£000	£000	£000	£000
At 1 July 2020		9	767	1	10,889	(3,045)	8,621
Profit and total comprehensive income for the year		-	-	-	-	15,417	15,417
At 30 June 2021		9	767	1	10,889	12,372	24,038
Profit and total comprehensive income for the year		-	-	-	-	4,558	4,558
At 30 June 2022		9	767	1	10,889	16,930	28,596

Other reserves

Capital redemption reserve

The capital redemption reserve consists of the nominal value of the Company's shares that were purchased by the parent company in 2000. These shares were cancelled immediately on purchase.

Capital reserve

The capital reserve arose as a result of a capital contribution made to the Company by its immediate parent company, Lush Ltd, in 2013 in order to settle an intercompany liability with Lush Ltd. This is a distributable reserve.

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

1 Segmental analysis

	2022 £000	2021 £000
<i>Turnover by business segment</i>		
Retail	111,571	67,689
Digital	26,853	54,336
Spa	1,194	359
	<u>139,618</u>	<u>122,384</u>
	2022 £000	2021 £000
<i>Digital turnover by geographical destination</i>		
United Kingdom	26,124	51,725
Europe	431	1,358
Americas	131	942
Asia	146	291
Rest of the world	21	20
	<u>26,853</u>	<u>54,336</u>

All Retail and Spa sales are generated in the United Kingdom.

Accounting Policies

Sale of goods and services

Turnover consists of amounts receivable for cosmetic products supplied and spa treatments rendered through our retail and digital outlets. Turnover is stated net of returns, discounts and value added taxes and is measured at fair value.

Sales of cosmetic products are recognised upon sale to the customer. Sales of cosmetic products made through the digital platform are recognised on despatch of the product, when it is deemed that the risks and rewards of the stock have been passed to the customer. Sales are made to customers with a right to return, however 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.

Gift cards and spa vouchers are also sold within retail outlets and online, the turnover for which is deferred until the goods or services are delivered to the customer. Based on historic experience, the portion of gift cards and spa vouchers expected to remain unredeemed are released to the profit and loss account each year. Retail outlets operate a loyalty scheme known as "Bring It Back". The scheme allows customers to return product packaging for a 50p discount per returned item on subsequent purchases. Deferred income is recognised in relation to the fair value of the future discount on sales, calculated using the historical average return rates multiplied by the 50p discount value.

2 Operating profit

Operating profit is stated after charging:

	2022 £000	2021 £000
Depreciation of tangible assets (<i>see note 7</i>)	2,706	3,456
Amortisation of intangible assets (<i>see note 6</i>)	34	33
Impairment of tangible assets (<i>see note 7</i>)	2,519	478
Operating lease rentals – Plant and machinery	118	214
– Property (<i>including creation and release of onerous lease provisions – see note 13</i>)	18,073	10,581
Royalties	9,521	5,717
Rates	3,796	164
Donations	1,003	648
Staff costs (<i>see note 4</i>)	<u>35,372</u>	<u>36,884</u>

Notes to the financial statements (continued)

2 Operating profit (continued)

	2022 £000	2021 £000
Auditor's remuneration		
Audit of these financial statements	98	52
All other services	12	12
	<u> </u>	<u> </u>
Other income		
	2022 £000	2021 £000
Coronavirus Job Retention Scheme Support	396	12,038
Government grants	1,051	1,226
Covid Insurance Claim	351	-
	<u> </u>	<u> </u>
	1,798	13,264
	<u> </u>	<u> </u>

Accounting Policies

Cost allocation

Cost of sales represents the cost of the finished products that have been sold, wasted or demonstrated in the year. All staff, premises and other operating costs are disclosed within operating expenses.

Royalty expense

The Company is charged a royalty for the use of Retail Intellectual Property ("IP") by Lush Ltd, which holds the exclusive licence to exploit the Lush Brand. Retail IP refers to the knowledge needed to open and operate a Lush store and includes branding, store layout and training. The royalty is invoiced on a quarterly basis and is based on a percentage of sales of finished goods. The royalties are recognised on an accruals basis and disclosed within operating expenses.

Coronavirus Job Retention Scheme and Government grants

Government income arising from Covid-19 support schemes has been recognised through the Statement of comprehensive income when there is reasonable assurance that the entities comply with the conditions attached to the support and that the income will be received.

Insurance claims

Revenue arising from Business interruption insurance receivable during periods where the Company is unable to carry out business as usual due to an unexpected event such as the Covid-19 pandemic. The income has been recognised through the Statement of comprehensive income when the pay-out has been received from the insurers.

3 Remuneration of directors

	2022 £000	2021 £000
Directors' emoluments	-	-
	<u> </u>	<u> </u>

The directors received no emoluments (2021: £nil) directly from the Company for their qualifying services to Lush Retail Limited.

Two directors are remunerated by other companies within the wider Lush Cosmetics Group. The estimated apportioned value of the remuneration received by these directors relating to qualifying services provided to the Company is £56k (2021: £42k). None of this estimate of remuneration has been paid by, or recharged to, the Company.

Notes to the financial statements (continued)

4 Staff numbers and costs (continued)

One director is separately employed and remunerated by a related party company, Cosmetic Warriors Limited, for qualifying services provided to that company. This director is also remunerated through performance related bonuses for qualifying services provided for the wider Lush Cosmetics Group, which are borne by the immediate parent company, Lush Ltd. For the year ended 30 June 2022 this director received a bonus of £1,000,000. These bonuses were paid shortly after, and as a direct result of, the successful acquisition of the remaining shareholdings of the Lush US and Lush Canada businesses by the Lush Group in September 2021. This acquisition has significantly increased the size, value and potential of the Lush Group and represents the most exciting acquisition in our history. It also brought to an end the potential legal claims which would have involved a significant time investment and cost to the Lush Group. In the 9 months since acquisition the Lush North America business has already contributed EBITDA in excess of the bonus payments. As a result, the criteria for bonus payments under the directors' bonus scheme was met (2021: no bonus was payable under the scheme).

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

	Number of employees	
	2022	2021
Sales	2,268	2,207
Digital	208	292
Administration	45	44
	<hr/>	<hr/>
	2,521	2,543
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2022	2021
	£000	£000
Wages and salaries	33,022	34,604
Social security costs	1,935	1,839
Other pension costs	415	441
	<hr/>	<hr/>
	35,372	36,884
	<hr/>	<hr/>

Accounting Policies

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

Short term benefits

Short term benefits, including holiday pay and other similar benefits, are recognised as an expense in the period in which the benefit is earned in return for the service provided on an accruals basis.

Defined contribution pension plans

The Company operates a defined contribution plan for its employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

Bonus arrangements

The Company operates a bonus plan for employees which is recognised through the profit and loss account on an accruals basis.

Notes to the financial statements (continued)

5 Tax on profit

Analysis of charge in year	2022 £000	2021 £000
Current tax		
UK current tax		
UK current tax on profit for the year	846	3,207
Paid for group relief	-	460
Adjustments in respect of prior periods	(197)	(727)
Total current tax charge	649	2,940
Deferred tax		
Current year movement in timing differences	398	(74)
Impact of change in tax rate	(583)	-
Adjustments in respect of prior periods	317	376
Total deferred tax charge	132	302
Total tax on profit	781	3,242

Factors affecting the tax charge for the current year.

The tax charge for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £000	2021 £000
Total tax reconciliation		
Profit before taxation	5,339	18,659
Current tax at 19% (2021: 19%)	1,014	3,545
Effects of:		
Expenses not deductible for tax purpose	230	48
Remeasurement of deferred tax – change in UK tax rate	(583)	-
Adjustments in respect of prior periods	120	(351)
Total tax on profit	781	3,242

The UK deferred tax asset and liability as at 30 June 2022 was calculated at 25% (2021: 19%). An increase in the UK main corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

Accounting Policies

Tax on the profit or loss 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 tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 and are recognised only to the extent that it is probable that future taxable profits will be available for utilisation. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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. Deferred tax balances are not discounted.

Notes to the financial statements (continued)

6 Intangible assets

	Software £000
Cost	
At 1 July 2021	307
Disposals	(165)
	<hr/>
At 30 June 2022	142
	<hr/>
Accumulated amortisation	
At 1 July 2021	258
Charged in year	34
Disposals	(165)
	<hr/>
At 30 June 2022	127
	<hr/>
Net book value	
At 30 June 2022	15
	<hr/>
At 30 June 2021	49
	<hr/>

Accounting Policies

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Cost includes the original purchase price, plus any direct costs of preparing the asset for its intended use.

Amortisation rate

Amortisation is calculated, using the straight line method, over their estimated useful lives as follows;
- Software costs => 3 years

Impairment

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. See note 7 for the detailed accounting policy adopted for impairment reviews.

Software

Costs associated with maintaining computer software and digital offerings are recognised as an expense as incurred.

Notes to the financial statements (continued)

7 Tangible assets

	Leasehold improvements £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 July 2021	8,230	34,971	3,610	46,811
Additions	277	1,773	292	2,342
Disposals	-	(145)	(4)	(149)
At 30 June 2022	8,507	36,599	3,898	49,004
Accumulated depreciation				
At 1 July 2021	2,244	33,938	3,252	39,434
Charged in year	220	2,210	276	2,706
Impairment provision	4,713	(2,302)	108	2,519
Disposals	-	(140)	(2)	(142)
At 30 June 2022	7,177	33,706	3,634	44,517
Net book value				
At 30 June 2022	1,330	2,893	264	4,487
At 30 June 2021	5,986	1,033	358	7,377

Management have conducted an impairment review on all retail stores that were identified as having an indicator of impairment, including those that made a negative retail margin in the financial year. The value in use calculation is based on five-year cash flow projections using the latest forecast data. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market and management have used the information available and their best estimates to forecast the impact on future cash flows. The review indicated that a further impairment provision was needed of £2,519k (2021: £478k).

Notes to the financial statements (continued)

7 Tangible assets (continued)

Accounting Policies
Tangible assets are stated at cost less accumulated depreciation and 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 rate
Depreciation is calculated using the straight line method to write off the asset cost over its estimated useful economic life as follows: - Fixtures, fittings and equipment => 5 years - Computer equipment => 3 years - Leasehold improvements => 10 or 20 years
Impairment
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. At each balance sheet date tangible and intangible (see note 6) assets are reviewed to determine whether there is any indication of impairment. Depending on the asset's role in generating cash the review is conducted on the asset in isolation or as part of a group of assets (cash generating unit - CGU). If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the greater of fair value less costs to sell and value in use. The value in use is the sum of its expected future cash flows. Where discounting is expected to be significant a pre-tax discount rate is applied to calculate the present value of the cash flows. 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 the initial reason for impairment no longer exists, the impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.
Subsequent additions
Subsequent costs are included within tangible fixed assets when recognition criteria are met. Where assets are considered replacements for existing assets, the depreciation of the replaced component is accelerated to write down to a nil net book value. 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 newly assessed useful economic life.
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.
Disposals
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 the statement of comprehensive income and included in operating expenses.

8 Investments

The direct and indirect investments in Companies in which the Company's interest at the year end is more than 20% are as follows:

Subsidiary undertakings	Registered Address	Principal activity	Class of share capital held
Lush Dublin Limited	116 Grafton Street, Dublin 2, Republic of Ireland	Retailer of cosmetic products	Ordinary 100%
Lush Distribution Limited	29 High Street, Poole, Dorset, BH15 1AB, England	Dormant	Ordinary 100%

The carrying value of the investments listed above is £4 (2021: £4).

Notes to the financial statements (continued)

9 Stocks

	2022 £000	2021 £000
Finished goods	2,156	2,065

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

Inventories are stated after provisions for impairment of £146k (2021: £161k).

Accounting Policies

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes the price paid to Lush Manufacturing Limited. Provisions are made for obsolete, excessive and out of date stock.

10 Debtors

	2022 £000	2021 £000
Trade debtors	1,016	521
Amounts owed by Group undertakings	42,987	34,772
Other debtors	25	491
Corporation tax asset	2,387	1,415
Prepayments and accrued income	2,104	1,831
	<u>48,519</u>	<u>39,030</u>
Amounts falling due after more than one year:		
Deferred taxation (see note 11)	2,032	2,164
Deposits	131	90
	<u>2,163</u>	<u>2,254</u>
Total debtors	<u>50,682</u>	<u>41,284</u>

Trade debtors are stated after provisions for impairment of £171k (2021: £163k).

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

Accounting Policies

Financial assets

Basic financial assets, including trade and other debtors, other related parties, property deposits and cash and bank balances are initially recognised at transaction price. Trade and other debtors are recognised at transaction price, less any impairment. Debts are written off when there is no realistic prospect of recovery of the amounts owing.

Deferred taxation

Refer to note 5 for the accounting policy on deferred tax assets.

Property deposits

Property deposits are paid to landlords on inception of the lease where applicable and the recoverable amount held on the balance sheet. Discounting is not applied to the carrying value of the deposits as the time value of money is not deemed to be material.

Notes to the financial statements (continued)

11 Deferred taxation

Deferred tax asset

	£000
At 1 July 2021	2,164
Origination and reversal of timing differences	(398)
Adjustment in respect of prior years	(317)
Effect of tax rate change	583
At 30 June 2022	2,032

	2022 £000	2021 £000
The split of the timing differences giving rise to deferred tax are as follows:		
Difference between accumulated depreciation and capital allowances	1,884	2,132
Other timing differences	148	32
	2,032	2,164

The amount of the net reversal of deferred tax expected to occur next year is £nil (2021: £nil), relating to the reversal of existing timing differences on tangible fixed assets and other timing differences.

Deferred tax has been recognised at the rate substantively enacted at the balance sheet date, and being the rate at which the Company considers these timing differences are likely to unwind at.

Accounting Policies
Deferred tax
Refer to note 5 for the accounting policy used for deferred tax assets.

12 Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	3,694	8,718
Amounts owed to Group undertakings	5,802	2,694
Amounts owed to other related parties	6	36
Other taxation and social security	466	473
VAT creditor	3,321	3,621
Other creditors	2,432	2,251
Accruals	7,023	7,974
Deferred income	251	546
	22,995	26,313

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

Notes to the financial statements (continued)

12 Creditors: amounts falling due within one year (continued)

Accounting Policies
Financial liabilities
Trade and other creditors, amounts owed to Group undertakings and related parties, bank loans and overdrafts are initially recognised at transaction price.
Landlord contributions
Contributions received from landlords are recognised within other creditors and released to the profit and loss account on a straight-line basis over the lease term, unless the contributions received are in relation to works performed on behalf of the landlord. In such cases the contribution is offset against the cost of the assets.

13 Provisions for liabilities

	Onerous lease provision £000	Dilapidation provision £000	Total provision £000
At 1 July 2021	1,548	613	2,161
Released or utilised during the year	-	-	-
Charged to the profit and loss account	5,443	133	5,576
At 30 June 2022	6,991	746	7,737

Onerous lease provisions

The onerous lease provision of £6,991k (2021: £1,548k) relates to future lease costs of properties where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, net of any expected sub-letting income, which is estimated to be utilised over the remaining life of the lease. The economic benefits of the lease are based on estimated future cash flows generated by the property over the remaining life of the lease, or to the earliest break date where appropriate. The present value of these cash flows are calculated by applying an appropriate discount rate.

Dilapidations provisions

The dilapidations provision of £746k (2021: £613k) relates to future expenditure that is required on termination of property leases that are within 3 years of termination (where we expect to exit the lease) and are in the name of Lush Retail Limited.

Accounting Policies
Provisions
Provisions are recognised when the Company 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. No discounting has been applied to the calculation of these provisions as it is not deemed to be significant.

14 Called up share capital

	2022 £000	2021 £000
Authorised		
250,000 Ordinary shares of £1 each (2021: 250,000 ordinary shares)	250	250
Allotted, called up and fully paid		
9,395 Ordinary shares of £1 each (2021: 9,395 ordinary shares)	9	9

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

Notes to the financial statements (continued)

15 Commitments and contingent liabilities

a) The Company had no capital commitments at 30 June 2022 (2021: £nil).

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

	2022 £000	2021 £000
Payments due:		
Within one year	10,765	11,759
In the second to fifth years inclusive	23,993	24,351
Over five years	6,011	7,999
	<u>40,769</u>	<u>44,109</u>

Lush Retail Limited bear the cost of various leases that they have the use of. However, the legal title of a number of these leases belong to related parties within the Lush Cosmetics Group or are shared between parties. The lease commitment is based on which entities have legal title under these leases. There is also a property lease that Lush Retail Limited have the legal title of and share the cost with Cosmetic Warriors, a company outside the Lush Cosmetics Group.

c) Contingent liabilities

The Company has guaranteed the borrowings of its fellow Group undertaking, Lush Ltd. The guarantee has been secured by way of fixed and floating charges over the assets of the Company. The amount of borrowings outstanding at 30 June 2022 in the financial statements of these undertakings was £nil (2021: £nil).

The Company has also guaranteed payments on a specific lease held in its subsidiary undertaking, Lush Dublin Limited. The future lease commitments under this lease are £904k (2021: £1,189k) over the period to 31 August 2025.

Accounting Policies
The nature of the lease agreements are assessed at inception to identify whether they are recognised as a finance lease or an operating lease.
Operating leased assets
Leases that do not transfer substantially 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 Company 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 statement of comprehensive income over the period to the earlier of the next break clause and the end of the original lease term.
Contingent liabilities
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 Company'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.

Notes to the financial statements (continued)

16 Pension scheme

The Company operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £415k (2021: £441k). There was £229k of outstanding employer contributions and employee deductions payable by the Company to the scheme at the end of the financial year (2021: £246k).

Accounting Policies

The accounting policy for pension schemes and similar arrangements has been addressed in note 4 to these financial statements.

17 Related party disclosures

During the year, the Company paid rent on a property jointly owned by Mr M Constantine and Mrs M Constantine, amounting to £30k (2021: £8k). Mr M Constantine is a director of this Company. Mrs M Constantine is a director of the immediate parent undertaking, Lush Ltd and the ultimate parent undertaking, Lush Cosmetics Limited, which indirectly owns 86.98% of this Company's issued share capital.

The following Companies, from which the Company predominantly purchases finished product and pays royalties, are deemed to be related parties due to control or significant influence being exerted by Lush Cosmetics Limited, the ultimate parent company, or due to common ownership:

	Purchases	Purchases	Royalties paid	Royalties paid	Other recharges	Other recharges	Closing (Cr)/Dr balance	Closing (Cr)/Dr balance
	2022	2021	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000	£000	£000
Lush Manufacturing Limited (see 1) below)	46,916	40,659	-	-	1,541	2,584	42,987	34,489
Lush Ltd (see 2) below)	4	-	9,521	5,717	1,142	565	(4,888)	(1,551)
Lush Distribution Limited	-	-	-	-	-	-	(31)	(31)
Cosmetic Warriors Limited	11	26	-	-	14	42	(6)	(36)
Lush Global Digital Limited (see 3) below)	-	2,671	-	-	4,550	1,351	(749)	(1,035)
Lush Cosmetics Limited	-	-	-	-	-	-	(134)	(77)

Closing debtor and creditor balances in the table above are disclosed at their gross value. As at 30 June 2022 the total provision for impairment on these balances is £nil (2021: £nil).

Lush Manufacturing Limited is a related party by virtue of it being a 100% subsidiary of Lush Ltd, which holds 86.98% of the ordinary share capital of this Company. Cosmetic Warriors Limited is deemed to be a related party as a result of common ownership.

- 1) Recharges from Lush Manufacturing Limited largely relate to payroll, packaging and distribution services provided on behalf of Lush Retail Limited.
- 2) Recharges from Lush Ltd are in respect of rental costs incurred on buildings used by Lush Retail Limited, in addition to delivery and distribution services provided on the Company's behalf.
- 3) Recharges from Lush Global Digital Limited are in respect of various digital services provided on behalf of Lush Retail Limited.

Accounting Policies

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

Notes to the financial statements *(continued)*

18 Immediate and ultimate parent companies

The immediate parent undertaking is Lush Ltd incorporated in England and Wales.

The ultimate parent undertaking and controlling party is Lush Cosmetics Limited incorporated in England and Wales.

Lush Cosmetics Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of this Company are available to the public and may be obtained from 29 High Street, Poole, Dorset, BH15 1AB.

Notes to the financial statements *(continued)*

19 General accounting policies

a) Statement of compliance

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 set out below and in the notes to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements of Lush Retail Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ("FRS 102"), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland 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 Company is a subsidiary of Lush Ltd and of its ultimate parent, Lush Cosmetics Limited, and the results of the Company are included in the consolidated financial statements of Lush Cosmetics Limited which are publicly available. The Company is therefore exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. These financial statements are the Company's separate financial statements.

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 controlling shareholders with Group companies are considered to be related parties. The Group has no shareholdings in licensee operations and there are no other reasons to suggest they are related parties.

The preparation of financial statements requires the use of certain critical accounting estimates, as disclosed in this note. Where applicable management have used their judgement in the process of applying the Company's accounting policies.

Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the Company will have sufficient funds to meet its working capital requirements for that period. The forecasts assume the continued cash pooling arrangement between the Company and fellow subsidiary undertakings Lush Ltd, Lush Manufacturing Limited, Lush Dublin Limited and Lush Global Digital Limited whereby cash surpluses are remitted to Lush Ltd to optimise Lush Cosmetics Limited ("Lush Cosmetics Group") cash management and cash deficits are similarly covered by Lush Ltd. Lush Ltd has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts, other than to continue to manage the Lush Cosmetics Group cash pooling arrangement.

Whilst the directors believe that the forecasts are reasonable, they recognise that there remains the possibility of further downside should consumer sentiment deteriorate further and that there is therefore a need to consider the ability of the cash pooling arrangement to support the Company in such a scenario. The nature of the Company is that it is reliant on the activities of fellow Lush Cosmetics Group companies for its supply chain and treasury management and so stress testing of forecasts and cash levels has been performed at Group level. The directors of Lush Group have not identified a material uncertainty in relation to going concern in the consolidated 30 June 2022 annual report and financial statements.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the financial statements (continued)

19 General accounting policies (continued)

c) 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 exemption, 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, available in the consolidated financial statements of Lush Cosmetics Limited, includes the Company's cash flows.
- ii) From disclosing the Company's 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 the consolidated financial statements of Lush Cosmetics Limited.

e) Foreign currency

Functional and presentation currency

The Company functional and presentational currency is pound sterling and is rounded to thousands.

Transactions and balances

Transactions in foreign currencies are translated into sterling using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate 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.

f) Cash at bank and in hand

Cash 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.

g) Critical accounting estimates and assumptions

Estimates and judgements are based on historical experience and other factors, including reasonable expectations of future events. 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 tangible assets (see note 7)

The estimation of recoverable value requires estimation of the future cash flows arising from the relevant investments, assets or CGUs and also selection of appropriate discount rates to calculate the net present value of those cash flows.

ii) Stock provisions (see note 9)

The provision is estimated by management based on historic stock movements, estimated future stock usage and the nature and condition of the existing stock.

iii) Provisions (see note 13)

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. Discounting has been applied to the calculation of these provisions where the impact is deemed to be significant.