

# **Lush Cosmetics Limited**

Annual report and consolidated  
financial statements

Registered number 04162033

30 June 2018



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## Strategic Report

### For the year ended 30 June 2018

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 2018.

### 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 6 countries through its subsidiaries, joint ventures, associates and licensees. The Group’s subsidiaries, joint ventures and associates are listed in Note 26 to the accounts.

### Review of Business

#### Results overview

	2018	2017
No. of shops (Group)	446	458
No. of shops (Brand)	928	932
Group Turnover (£'000)	524,450	497,788
Brand Turnover (£'000) – unaudited	987,424	995,047
Group EBITDA - pre Exceptional items (£'000)	19,947	42,289
Group Operating profit - pre Exceptional items (£'000)	(3,996)	22,695
Exceptional items (£'000)	(5,129)	-
Group profit before tax (£'000)	23,423	73,482

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

- ‘Brand’ figures include the Company and 100% of all subsidiaries, joint ventures, associates, licensees and franchisees.
- ‘Group’ figures include the Company and its subsidiaries. Group profit before tax also includes the Group’s share of joint ventures and associates.

Group turnover increased by 5.4% to £524.5m in the year and by +6.6% when adjusted to reflect consistent exchange rates across both years. The sales growth reflects like for like (LFL) growth<sup>1</sup> of +4.4% in our shops and +9.6% across our Digital sites plus the impact of 18 new shops opened in the year. In our 2 largest Group markets we were pleased to record LFL growth of +8.2% in the UK and +5.4% in Japan where our Brand presence continues to improve.

Total Brand turnover is marginally down (by 0.8%) on last year at £987.4m, although +3.3% higher than last year at consistent exchange rates. Sales in our largest retail market of the US fell by 7.5% reflecting reduced levels of footfall during the year.

Group operating profit before exceptional items has decreased by £26.7m, from a profit of £22.7m to a loss of -£4.0m. The significant decline is a result of most of our major costs increasing at a greater rate than our sales, namely cost of goods, manufacturing and shop staff costs, shop premises costs and sales and administration costs.

In respect of staff costs 50% of the UK Lush manufacturing staff are not from Britain - in a country where the government are committed to reducing immigration we are fortunate that we were already able to pay our staff a fair wage. As a business we are committed to a modern form of capitalism, which relies on the people at the bottom of the pyramid being able to afford to have a roof over their heads and food in all circumstances. So what we have done, is allowed our lowest wages to be independently calculated by the Living Wage foundation to ensure that is the case. It has cost us financially, but in turn it shows our staff we care and ensures we can still attract the best talent.

We have continued our relocation programme, moving 27 group shops to bigger and better locations which have in some cases incurred significant pre-opening costs recognised as an expense in the year. These new locations have broadly met our sales expectations and there is a learning curve in managing these bigger shops, in the control of staff costs and being flexible enough to react to the peaks and troughs of customer visits.

<sup>1</sup> Like-for-like (LFL) sales growth represents the constant currency, year on year sales growth for stores that have been open for more than a year. This measure is widely used in the retail industry as an indicator of sales performance on a comparable basis.

## Strategic Report

### Review of Business (*continued*)

Despite rising sales in our Brazil shops, the Group operating loss includes another £4.9m of trading losses in this market, bringing accumulated losses to £20.7m since re-entering this country in 2014. Along with punitively high taxes, the prolonged economic recession and political instability we could not justify continued investment in this market. With great sadness we announced the closure of this business in May 2018 with the 5 shops and factory closed by the end of the financial year. Additional closure costs of £3.4m relating to Brazil are included in the exceptional item figure in the profit and loss account.

North America remains our largest retail market and whilst sales have declined in the US, still recorded a significant profit our share of which is £30.9m (accounted for under the joint venture method), a drop of 36% compared to last year. After including our share of profits made in all joint ventures and associate undertakings, profit before tax has reduced by 68% on last year, from £73.5m to £23.4m.

During the year we celebrated our charitable giving surpassing the £50m mark since the Charity Pot was introduced in 2007, a statistic that we are enormously proud of. In the year ended 30 June 2018 total amounts donated across the Brand from Charity Pot and other initiatives exceeded £15m for the first time, partly due to the lag effect between the timing of when the monies are raised and when they are donated. Given the more uncertain times we are making some changes to align the giving potential to our profit. Our commitment to the Charity Pot is unchanged with 100% of the retail price, less VAT, being committed to charitable giving. Please refer to the Directors' report for more detail on our Charitable donations in the year ended 30 June 2018.

### Financial position

The Group finished the year with a marginal net debt position of -£1.0m (2017: net cash of £28.4m) having re-invested a further £35.6m into our retail portfolio, factories and equipment, and digital projects. This financial position was strengthened by receipt of a £31.8m dividend from our North America operation on 3 July 2018 (outside of the 2018 financial year by 3 days) reflecting underpayments from previous years. We have access to a £35.0m multi-currency borrowing facility with Barclays as well as local borrowing facilities of £13.7m 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). Please refer to 'going concern' below on the status of our banking facilities.

### Future outlook

Sales growth in our Group markets for the 6 months to 31 December was +0.7% with an underlying LFL decline of -0.7%. Total Brand sales in this period have decreased by -3.0% with underlying LFL of -4.6% which is weighted by the continued decline in the US.

The decrease in profit reported in these accounts has prompted several initiatives to improve the 'productivity' of our costs. These include focus groups looking at cost of goods (including a full review of retail pricing), staff costs in the larger stores and the progression of system efficiencies, design and property costs, and a full review of our sales and administration cost base. We expect to see some benefit from these initiatives in the next financial year.

The dividend receipts from North America and continued cash generation from trading have allowed us to remain committed to Big Shop investments in Liverpool, Birmingham, Tokyo and Munich (see 'Stores' section below) as well as further investment in our Manufacturing facilities. Our new bespoke 'Lush pay' tills were in all of our UK stores for Christmas 2018, helping to keep queues down with their speed, resilience and portability. We do not envisage the need for the same level of capital investment in the future and are carefully monitoring this in relation to EBITDA generated and dividend inflows in order to maintain a prudent cash position.

### Strategy

In the beginning, we (the founders) of Lush didn't think we had a vision; it turns out we did, we just didn't understand it at the time. Above all, we believed customers wanted good value, not cheap, but loads of hair and body goodness for their money. It's only now, looking back that we realise that our vision was just a dissatisfied reaction to our competitors' products, a wish for something more wholesome. It's been a while since Lush last wrote a business plan, so recently we've refreshed it and called it '**The Secret Lush Cosmetics Master Plan**'.

The Plan consists of three main goals:

1. Make products for every need (it's not what customers want, it's what they need).
2. Be number one in every category (do not accept the status quo: invent new products that fulfil all of the vision).
3. Create a cosmetic revolution to save the planet (we are running out of time – we need a revolution).

## Strategic Report

### Review of Business (*continued*)

Why have we come up with this plan? We are getting to a point now where we can no longer talk about climate change as though it's a looming threat; it is happening and it is a business reality. In the latest Womens Wear Daily Beauty top 100, L'Oréal is number 1 and Lush are number 33; Lush are 4.2% of the size of L'Oréal. For 23 years, we have made great products, with beautiful ingredients, we are transparent with our customers and we don't sell fake benefits. We are not the number one cosmetics company, but for the sake of the environment, we really need to be. We believe that Lush has the potential to be a 'keystone species'; a keystone species is defined as a species that has a disproportionate positive benefit on their ecosystem in comparison to their numbers.

Part of this plan has seen us opening a series of feature shops around the world, starting with the Naked shops in Milan (June 2018) and Berlin (October 2018), our first shops with no plastic at all just naked products. Next, we opened a Bath bomb shop in Harajuku (November 2018) and most recently another Naked shop in Manchester (January 2019). We are also working on opening a Hairdressing Salon in Dorset and a Fresh Shop in Paris. We are putting all these concepts together into a big new shop in Liverpool, opening in March 2019. There is a group of us reaching the pinnacle of our careers and we are in sight of what we wanted to do all our lives. We wanted no preservatives, we wanted no packaging, and bit by bit we have worked towards doing it.

Another part of our strategy is around the seasonality of our sales. In the UK, rest of Europe, Australia and North America getting Christmas right is vital; operating costs, including rent, are so high that making profits in the months outside of Christmas can prove very difficult. With online shopping being so popular, the additional surge over the Christmas period can mean that the largest servers in the world crash for long periods as everyone 'refreshes' repeatedly in the hope of securing this or that bargain. As a retailer if you gamble and make a mistake at Christmas you can at best be a couple of years recovering or at worst lose the business.

This is not the case in Japan, China and the East where retail and online businesses like ours have a much smoother seasonal sales profile and can make a profit every month. We will continue to invest in our Japan business such that it can generate monthly profits, whilst also investing in Hong Kong, Korea and our other partners in the region; this long term aim will stabilise our trade reducing the festive gamble.

### Stores

Our Group shop count contracted by 12 to finish at 446 at the end of the financial year, the net of 18 openings and 30 closures. There were a further 11 closures of 'off brand' small stores in Japan and 5 closures in Brazil as we sadly decided not to continue in this market. Global shop count, including our stores in joint venture, associate, licensee and franchise operations reduced by 4, finishing at 928.

Relocations continued to be a key focus during the year as we secured larger units in prime locations. During the year there were 27 relocations in our Group countries, 11 in the UK (including Trafford Centre in Manchester and White City in London), 10 in mainland Europe and 2 in Japan including Kobe which became our largest store in this market (3,300 sq. ft. trading on 2 floors)<sup>2</sup>. Average LFL growth in these relocations was 34% in the 6 month period after reopening.

The impact of the relocations, along with new openings, closure of low turnover stores and LFL growth in remaining stores has seen average sales per Group store increase by 9% from £849,000 to £927,000. Average sales across the Brand have increased by 2% from £929,000 to £943,000.

The transition of our property estate in Japan has continued. Whilst the closure of over 60 'off brand' stores over the last 3 years has been daunting, we have also relocated or opened bigger and better brand enhancing stores which have helped to revitalise this market. As mentioned above, Tokyo saw the launch of our first Lush concept shop dedicated entirely to bath bombs in November 2018, with over 50 new products. The financial year will culminate in the opening of a 12,000 sq. ft. 'Big Shop' in the Shinjuku area of Tokyo in May 2019.

In December 2018 we relocated our Birmingham store to a prime location in the city centre; at 7,500 sq. ft. this store is only slightly smaller than Oxford St. and trades off 2 floors including a Spa. In March 2019 Liverpool will become our new largest Global shop (14,900 sq. ft.) trading off 3 floors and including a Spa. Similar to our Oxford St opening in 2014, the Liverpool opening has provided a catalyst for further new product invention and different concepts which will be launched with the store opening and then selectively rolled out across the rest of the portfolio. Another exciting 'Big Shop' opening is planned in Munich (8,400 sq. ft.) which will be located in Kaufingerstrasse, the 2<sup>nd</sup> busiest shopping street in Europe (after Oxford St), and will open in late 2019.

<sup>2</sup> Figures quoting shop size refer to 'customer facing' store space which includes retail selling areas and Spa areas

## Strategic Report

### Review of Business (*continued*)

#### *Online and Digital*

Online sales in our Group markets grew 9% to £42m in the financial year to 30 June 2018. We are optimistic that our new global website launch will help generate further growth.

In the year we focussed on developing and maintaining our digital estate. Much like our retail estate, our digital estate is an environment that houses all systems and services required to run the business, including our website and tills. This estate is made up of open source, home-grown systems that fit our ethical digital policies; ensuring a safe haven for our Lush communities online. We have had a steep learning curve with regards to building an in-house development team which grew by 18 heads (including staff recharged from related parties) across the year. The team continues to focus on developing new features in 'beta', an evolving 'brand led commerce' experience online which can be viewed at [beta.lush.com](http://beta.lush.com), providing access to our UK customers and rolling out globally in the year ending 30 June 2019.

Our ambition to deliver the freshest products to our customers by relocating digital fulfilment continues as we now fulfil German, Swedish, Austrian and Dutch web orders from our German factory in Dusseldorf. We also now supply our products unpackaged in web orders fulfilled from Dusseldorf. In October, we transformed the UK & Japanese Kitchens (which accounted for £4m sales in the prior year) into a new Lush Labs service that kicked off on 29th April. The 6 month break between services resulted in a decline in growth during the year. Lush Labs offers exclusive products fresh from our unique R&D cosmetic labs in Poole and unlike the original UK Kitchen, these products are now available globally on all our websites. Another big change this year was to make the decision not to hold an online Boxing Day sale. As a result, in January 2018 sales reduced by £0.5m, however we did see an improvement in online margin as costs to host the sale were not incurred, which contributed to an increase in profit of £0.1m.

In the second half of the financial year we also began recruiting for roles in digital trading managers and digital analysts to look at each product category and optimise them. By focusing on analytics and Search Engine Optimisation (SEO) we will be able to introduce more customers to relevant products and stories.

#### *Manufacturing*

Over 154 million items were produced across our 7 Manufacturing facilities in the year, a decrease of 17 million items (-10%) on the previous year. We do anticipate further growth in demand and have continued our strategy of alleviating pressure on the UK facility through transferring supply of markets to other overseas facilities, with Japan taking on supply of the Korea and Thailand retail markets during the year. Our UK Manufacturing facility will continue to supply 19 markets.

Our Manufacturing facility in Dusseldorf, Germany finished the year supplying 8 central European markets and is expected to supply 1 more market during the next financial year; this facility is well positioned to satisfy our future growth plans for the France and Germany retail markets. The prospect of Brexit continues to enforce its strategic importance both logistically and potentially financially if tariffs are introduced between the EU and the UK in the near future. We sadly closed our Brazilian Manufacturing facility in June 2018 as a result of the Board decision to close business operations in this market.

During the year a related party company, Cosmetic Warriors Ltd, purchased and started fitting out 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. Development and testing of new manufacturing processes, full scale mock-ups of new shop features, as well as the development of a new range of colour cosmetics are already taking place. In addition, the scaling up of new product launches and associated research and development is now being performed in this unit all of which reduces the pressure on our Group Manufacturing facilities.

#### *Sourcing*

We remain fully committed to using high quality, natural materials and continue to work towards a regenerative supply chain in partnership with our growing communities. As we are witnessing the peak of a 'tipping point' with climate change, ultimately we want to 'put in' more than we 'take out' and ensure resilience and fair share throughout the supply chain.

Financially this year was challenging with global economic and climatic factors putting pressure on our cost of goods. Whilst sterling remains weak post Brexit, Vanilla prices have continued to trade at record highs and some other core materials also experienced large price increases. We have reacted strongly with several disciplines pulling together to target efficiency gains without compromising on quality or ethics. The initial results have been good and we anticipate our cost of goods will improve in the next financial year.

## Strategic Report

### Review of Business (*continued*)

Longer term our plan is to create 'sourcing hubs' where we have an on the ground presence in raw material hot spots of South America, the Med/MENA region, Africa and Indonesia/Asia. These same regions tend to be important areas for bird migration and biodiversity and the worst affected by climate change and deforestation. By forming 'hands on' teams and structures locally we want to help address these issues whilst securing future supply and mitigating price volatility. This year we made good progress in all 4 regions, now owning a 50 acre bitter orange plantation in the Middle East and an essential oil processing facility in Pakistan. We also established many partner projects such as working with indigenous communities in Brazil to supply Tonka beans, protecting primary rainforest in Indonesia through buying Patchouli and the beginnings of several Vanilla growing partnerships across East Africa.

### Employees

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 have been paying all permanent UK staff at or above the "real" hourly Living Wage rate since April 2017. This national rate, set by the independent Living Wage Foundation, is currently +92p higher than the Government's "over-25" 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 the 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 manufacturing and retail staff.

Our UK parental pay policy which pays 6 months' full pay has been extended to the Netherlands, Spain, Portugal, France and Belgium. The UK business also provides childcare funding to enable more women to return to work after having or adopting children. Secondary carers within our UK workforce also receive full pay for 4 weeks leave. In both cases our policies extend to cover those taking shared parental leave.

Whilst, as anticipated, these initiatives have had an immediate 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 in future years.

10% of our shares are now held on behalf of our staff in the Lush Cosmetics Employee Benefit Trust (EBT). We believe the Trust which was established in 2017 will protect the prosperity of the Lush business at the same time as recognising the contribution the employees make to its success. 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 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 in returning to their role, or endeavour 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, EBITDA, 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) – on a monthly and annual basis for all individual shops (including relocated stores) that have been trading for longer than one year (or have a full year of comparative results for annual LFL) and also from a total territory and Group perspective. The LFL growth in the year was +4.9% across all Group shops and digital outlets, and +0.1% across the Lush Brand. 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 in our Group countries have increased by 9% from £849,000 to £927,000 in the year.

## Strategic Report

### Key Performance Indicators (KPIs) *(continued)*

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.

### 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*

Brexit continues to create significant business and economic uncertainty which may potentially impact on property prices, inflation, currency rates and banks appetite for funding, aside from the additional trade tariffs that are likely to transpire.

In the event of a 'no deal' Brexit the UK would operate and trade independently falling back on international trade agreements such as the World Trade Organisation (WTO) for trade. We have estimated the impact of reverting to WTO tariffs at an annual cost of £3.6m (including our share of the impact that would be borne by joint venture and associated undertakings) and initiatives are underway to lessen part of this impact. We also expect cash flow to be impacted through additional withholding tax and working capital investment as we look to build raw material stocks to mitigate potential shipping delays. We are working with suppliers to ensure they are holding sufficient stocks and have committed to increasing our own stock balances by £1.3m for materials coming via Europe. Whether deal or no deal, our new Manufacturing facility in Germany will absorb some of the impact on the business including the increased bureaucracy and administration burden around customs processes, rules of origin and conformity assessment processes.

We continue to campaign for freedom of movement and remain committed to our declaration within our 'We Believe' statement that 'We believe that all people should enjoy freedom of movement across the world'. Despite the opportunity of working in our German facility, over half our employees working in the UK Poole facility remain EU migrants. We have formed a dedicated freedom of movement team to look after staff needs in global mobility, migration law and advise on their current rights whilst also providing financial support for legal advice if necessary; this includes advising on the Government's proposed EU settled status scheme which aims to register all EU nationals and their family members who are currently in the UK by June 2021.

#### *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.

Similar to Brexit in the UK, there has been uncertainty and risk for our North America business around the renegotiation of the North America Free Trade Agreement (NAFTA) given that our US Retail business imports finished goods from our Canada Manufacturing facilities free from tariffs. The new trade agreement (the USMCA) signed on 30 September 2018, if adopted, will not create any additional administrative or financial burden on our current business activities.

The impact of low oil prices on the economies of the Middle East has led to a drop in infrastructure investment and economic activity in the region. Along with increased tensions with Qatar, this has led to a continued drop in footfall in our shops.

Our main Asia markets of Japan, Hong Kong and Korea are buoyant at the moment but rely heavily on inbound tourists from China. The impact of trade frictions with the US has had an impact on business confidence in China and we remain alert to the impact of a slowdown in this major economy and the potential impact on our businesses.

#### *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. 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.

## Strategic Report

### Principal risks and uncertainties (*continued*)

#### *Going Concern*

We have continued to draw from our Barclays £35m revolving credit facility (expiring on 31 July 2019) throughout the year, despite often being in a net cash position; the multi-currency nature of the facility allows us to mitigate our foreign exchange exposure by drawing down in currencies appropriate to where the funding is needed. Our net debt position at 30 June 2018 was -£1.0m, despite having £23.9m drawn down on the Barclays facility and being fully drawn down on our two ¥1bn (total £13.7m) facilities with Bank of Yokohama and SMBC (expiring on 28 February 2019 and 31 May 2019 respectively). All facilities are repayable on demand. On the 3 July 2018 our cash position was strengthened considerably by a £31.8m dividend receipt from our North America businesses.

We are currently reviewing our options with other banks before renewing or replacing the £35m facility, whilst we fully expect the Japan facilities to be renewed as they have been historically. At the time of signing the accounts, we are in the final stages of formalising a committed facility with Bank of Yokohama.

Given that all facilities are repayable on demand, the Directors have reviewed financial projections and cash flows to 30 June 2020 assuming there are no available facilities to the Group, including stress testing various scenarios around trading. The sensitivities consider possible sales shortfalls and the subsequent impact on cash generation, the impact of interest rate rises, as well as Brexit considerations including additional customs duties and withholding tax that could be levied. Our cash flow projections benefit significantly from the closure of the loss-making Brazilian businesses and projected EBITDA profit in Japan for the year ended 30 June 2020 following significant pre-opening costs incurred on the Tokyo big store in 2019. In addition to cash generated from the Group's trading, we have also considered future dividend income from our joint venture operations in North America and from our Associates.

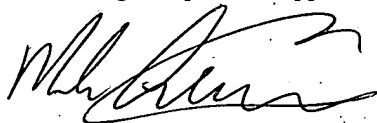
The Group currently has significant cash reserves following the receipt of substantial dividends from joint venture operations in North America and having generated considerable cash from trading over the Christmas period. Our sensitised projections show a continued net cash surplus throughout the period under review. This means that in the event that none of the current facilities are replaced or renewed, they could be repaid at any point from cash reserves whilst still leaving sufficient resources for the Group to continue operations for the foreseeable future. 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 since the Brexit vote but we have not experienced an adverse impact 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 do not believe there is a material impact on the business.

The Strategic Report was approved by the Board of Directors on 8 March 2019 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 2018.

### Results and dividends

There was a profit for the financial year amounting to £6,356,000 (2017: £43,625,000). A final dividend for the year ended 30 June 2017 of £164.26 per share, a total of £1,500,000, was proposed on 1 March 2018. An interim dividend in respect of the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed on 7 March 2018. Please see note 8 for further details on dividends paid during the financial year.

A final dividend for the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed on 18 July 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 (including all subsidiaries, joint ventures, associates, licensees and franchisees) raised and set aside funds of £13,314,000 (2017: £13,370,000) and donated a total of £15,278,000 (2017: £11,763,000) of funds to charities and other good causes. Of the total amount donated, £10,978,000 was from the Lush Group including the relevant share of joint ventures and associate entities (2017: £8,311,000), an increase of 30.3%. 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 were through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. This year Lush partners raised £9,607,000 (2017: £9,845,000) and donated £11,299,000 (2017: £8,919,000) in 37 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 £1,361,000 (2017: £1,465,000) with a total of £1,311,000 (2017: £1,285,000) being donated in the year. The amounts were predominantly donated to organisations working in the fields of Permaculture and Agroecology, Rewilding and Biodiversity, Disaster Relief and Mitigation. Amounts donated through SLush also included £220,000 of prizes awarded at our annual Spring Prize, aiming to honour those who have proven to be powerful advocates for practices that can restore health, wholeness and resilience of the Earth's damaged systems.
- The Carbon Tax fund is a self-imposed tax charged on staff's international flights and is linked to the CO2 emitted, with funds being donated to environmental groups. A total of £515,000 was raised in the year (2017: £318,000).
- 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 £157,000 (2017: £206,000).
- We also ran the Lush Prize again in this financial year, where we donated a total of £330,000 (2017: £250,000) to the winners, all of whom are engaged in research, campaigning or training to end animal testing.
- We set aside and donated £400,000 (2017: £220,000) 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.
- Campaign Products are designed, produced and sold to raise both money and awareness for specific causes we support. We raised £745,000 and donated £1,225,000 during the year in relation to a variety of campaign products.

## Directors' report (continued)

### Charitable contributions (continued)

Campaigns in the year included, but were not limited to, our 'Inner Truth' bath melt sold in North America which was part of a larger TransVisibility campaign supporting transgender rights, with the funds raised being donated to various groups supporting the ongoing fight for equality. We also sold our 'Orangutan' soap in aid of the Sumatran Orangutan Society who work hard to protect the remaining 14,600 wild Orangutan in Sumatra, as well as other species, from the plight of intense deforestation in one of Indonesia's and the World's most diverse ecosystems. Among other things, their work has helped to reforest large areas of land previously devastated by palm oil plantations.

- £152,000 was raised and donated to Humane Society International; a charity with active campaigns for animal protection and animal testing legislation.

### 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.

The country by country breakdown in respect of the year ended 30 June 2018 is as follows:

Country of operation <sup>1</sup>	Number of shops	Number of factories	Number of employees	Total revenue - £ k	Staff costs - £ k	Profit before tax - £ k	Taxes charged £ k			Taxes Paid £ k					Total taxes paid - £ k
							Current tax	Total tax on profits (including DTI)	Effective tax rate	Corporation tax	Premises tax <sup>6</sup>	Payroll taxes	Stamp duty	Customs duty	
UK	102	1	5,452	322,322	89,596	(9,650)	2,769	2,249	-23.3%	5,102	5,943	7,851	191	255	19,342
Japan	89	1	1,552	83,401	30,351	(5,747)	4	86	-1.5%	48	118	3,877	2	196	4,241
Australia	34	1	915	68,003	20,687	(3,222)	460	1,437	-44.6%	527	-	1,587	-	125	2,239
France	44	-	529	34,400	14,084	(1,991)	190	218	-10.9%	320	124	5,850	-	-	6,294
Germany	39	1	1,072	53,803	21,383	(6,981)	(114)	(114)	1.6%	241	-	4,902	-	-	5,143
Hong Kong and Macau	9	-	244	21,424	4,577	3,368	149	149	4.4%	114	169	-	1	1	285
Italy	32	-	479	23,530	10,158	(4,435)	126	126	-12.4%	142	-	4,087	-	-	4,229
Middle East	24	-	266	15,231	4,643	(165)	5	5	-2.9%	-	-	250	-	180	430
Netherlands	10	-	143	11,678	4,367	(144)	3	3	65.7%	319	41	1,132	-	-	1,492
Spain	16	-	479	16,181	6,598	(2,636)	-	-	0.0%	-	37	1,857	-	-	1,894
Sweden	9	-	119	6,265	2,442	(79)	(89)	(89)	112.6%	-	21	572	-	-	593
New Zealand	9	-	134	7,630	1,985	(278)	-	327	35.1%	6	-	-	-	56	62
Austria	7	-	114	5,831	2,147	454	129	129	7.3%	9	-	505	-	-	514
Belgium	6	-	99	5,237	1,701	8	58	58	25.6%	177	-	337	-	-	514
Ireland	3	-	95	4,034	1,125	703	67	87	12.4%	-	58	113	-	-	171
Brazil <sup>2</sup>	-	1	140	5,189	2,216	(8,342)	-	-	0.0%	-	5	282	9	105	401
Czechia	2	-	47	2,929	654	637	119	119	18.7%	118	-	6	-	-	124
Hungary	4	-	44	2,586	552	219	43	43	10.7%	13	30	106	-	-	149
Luxembourg	1	-	7	892	240	147	62	62	20.9%	43	-	2	-	-	45
Portugal	2	-	23	793	307	(163)	-	-	0.0%	-	-	53	-	-	53
Bulgaria	2	-	11	300	128	10	-	-	0.0%	-	-	6	-	-	6
Estonia	2	-	17	477	143	-67	-	-	0.0%	-	-	37	-	-	37
Peru	-	-	11	52	60	(76)	-	-	0.0%	-	-	2	-	-	2
Ghana	-	-	18	6	25	(59)	-	-	0.0%	-	-	1	-	-	1
Kenya	-	-	-	-	-	(16)	-	-	0.0%	-	-	-	-	-	-
Croatia - Manufacturing	-	1	361	19,211	4,733	1,609	302	632	39.3%	230	-	434	-	1	665
Elimination and consolidation <sup>3</sup>				(186,955)		27,288	-	2,861							
Deferred tax consol <sup>4</sup>															
Group subtotal	446	6	12,371	524,450	224,902	(9,474)	4,283	8,388	-88.5%	7,409	6,546	33,849	203	919	48,926
Share of PBT:															
Joint Ventures <sup>5</sup>				203,279		30,855	8,546	8,256	26.8%						
Associates <sup>5</sup>				29,931		2,042	416	423	20.7%						
Non group subtotal				233,210		32,897	8,962	8,679	26.4%						
				757,660		23,423	13,245	17,067	72.9%						

Note 1: All companies are tax resident only in their country of operation: this is also where their registered office and place of incorporation is located.

Note 2: Our manufacturing and retail operations ceased during the year: no shops were open at the balance sheet date

Note 3: Elimination of manufacturing sales to group companies and consolidation adjustments.

Note 4: Recognition of deferred tax asset on unrecognised intra-group profits and deferred tax recognised at Group Level.

Note 5: The Joint Ventures' profit before tax relates to our share of the North American business.

Note 6: Premises taxes refers to business rates or their country equivalent.

## Directors' report (continued)

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

Our effective tax rate of 72.9% (2017: 40.6%) is significantly higher than the standard rate of Corporation Tax in the UK of 19%. The main factor impacting our effective tax rate is current year losses for which no deferred tax has been recognised; this relates to loss making Group companies in Japan, Australasia and Europe where although we are confident that these markets will return to profitability, we have taken a prudent view in respect of not recognising a deferred tax asset in these accounts. Expenses for which we are unable to take a deduction for tax purposes also have a significant impact on our effective tax rate, the most significant amounts being non-deductible legal and professional fees in the UK and entertaining expenses within our North American business. Our effective tax rate is also affected by higher rates of corporation tax in other jurisdictions in which we operate, particularly the US (even following the reduction in rates given the US Tax Reform) and Canada. Note 7 of the accounts provides further detail and narrative around the corporation tax charge for the year ended 30 June 2018.

In respect of Brexit we have carried out an impact assessment to determine a potential worst-case scenario should our business see World Trade Organisation rates apply to the movement of our finished products and raw materials purchased and sold to European Countries, and countries which are currently able to benefit from free trade agreements with the European Union. We are pleased that the UK Government is suggesting some sensible approaches to accounting for VAT on imports from EU countries which will not be detrimental to our cashflow.

During the financial year we have continued to work collaboratively with tax authorities in order to assist with their enquiries and engage in an open and honest dialogue in order to resolve their enquiries. Our enquiries from the French Tax Authorities were concluded with no adjustments required. We have also been subject to multiple reviews by the UK Tax Authorities across various taxes. Although some enquiries are still ongoing, those which have closed have done so with no net tax adjustment, or interest and penalties imposed.

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 for the fifth consecutive year and continue to promote the importance of this throughout our global business.

The Group have complied with the commitments set out in our Ethical tax policy (published on our website <https://uk.lush.com/article/company-tax-policy>) and continue to monitor and report on our compliance with the policy.

### Branches outside the UK

At 30 June 2018 and 30 June 2017 the Lush Group had overseas branches in Luxembourg and Czechia.

### Disclosure of information to auditor

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

### 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.

On behalf of the board



Mark Constantine  
Director  
8 March 2019

29 High Street  
Poole  
Dorset  
BH15 1AB

## **Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the financial statements**

The directors are responsible for preparing the Annual Report, 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 Group and parent company 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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 Group and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 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 Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH COSMETICS LIMITED**

## **Opinion**

We have audited the financial statements of Lush Cosmetics Limited ("the company") for the year ended 30 June 2018 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and related notes.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's 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 group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Other matter - the impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and 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 their 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 are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the group and the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

## **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.

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

## **Strategic report and directors' report (continued)**

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; 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 11, 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 group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

## **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](http://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.

**Simon Haydn-Jones (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

**13 March 2019**

## Consolidated profit and loss account for the year ended 30 June 2018

<b>A helpful summary</b>	The profit and loss account shows the total revenue generated by the Lush Group less the expenses incurred in the financial period ended 30 June 2018. The expenses include costs incurred in operating activities, interest costs on financing and taxation charges. The total profit includes the Group's share of the profit generated by joint ventures and associates. The result is split between the amount that is attributable to the shareholders of the Group and the amount that is attributable to non-controlling interests (NCI), which are the other shareholders of entities that are not 100% owned.
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	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
Turnover (including share of joint ventures' and associates' turnover)		<b>757,660</b>	743,748
Less: share of joint ventures' turnover	<i>1</i>	<b>(203,279)</b>	(218,608)
share of associates' turnover	<i>1</i>	<b>(29,931)</b>	(27,352)
<b>Group turnover</b>	<i>1</i>	<b>524,450</b>	497,788
Cost of sales	<i>2</i>	<b>(179,915)</b>	(147,375)
<b>Gross profit</b>		<b>344,535</b>	350,413
Operating expenses ( <i>including exceptional items of £3,432,000, 2017: £nil</i> )	<i>2</i>	<b>(353,660)</b>	(327,718)
<b>Group EBITDA*</b>		<b>16,515</b>	42,289
Group depreciation, amortisation and impairment	<i>2</i>	<b>(23,943)</b>	(19,594)
Exceptional fixed asset costs	<i>2</i>	<b>(1,697)</b>	-
<b>Group operating (loss) / profit</b>		<b>(9,125)</b>	22,695
Share of operating profit from joint ventures	<i>11</i>	<b>30,657</b>	48,750
Share of operating profit from associates	<i>11</i>	<b>2,041</b>	2,800
Net interest (payable) / receivable and similar items - Group	<i>5</i>	<b>(349)</b>	(557)
- Joint ventures	<i>6</i>	<b>198</b>	(170)
- Associates	<i>6</i>	<b>1</b>	(36)
<b>Profit before taxation</b>		<b>23,423</b>	73,482
Tax on profit - Group	<i>7</i>	<b>(8,388)</b>	(10,837)
- Joint ventures	<i>7</i>	<b>(8,256)</b>	(18,514)
- Associates	<i>7</i>	<b>(423)</b>	(506)
<b>Profit for the financial year</b>		<b>6,356</b>	43,625
<b>Profit attributable to:</b>			
- Owners of the parent		<b>6,380</b>	41,566
- Non-controlling interests	<i>20</i>	<b>(24)</b>	2,059
<b>Profit for the financial year</b>		<b>6,356</b>	43,625

All results relate to continuing activities.

The accompanying notes form part of the financial statements.

\* EBITDA = Earnings before interest, taxation, depreciation and amortisation

## Consolidated statement of comprehensive income for the year ended 30 June 2018

A helpful summary	The consolidated statement of comprehensive income includes other income and costs that are not included in the consolidated profit and loss account on the previous page, as defined by the applicable accounting standard (FRS102). Other comprehensive income is generally made up of unrealised income and costs that are outside of the Group's core operations. For the Lush Group this includes the movement in value of our Bitcoin holding and the impact of foreign exchange translation differences arising on consolidation of overseas entities.
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	Note	2018 £000	2017 £000
<b>Profit for the financial year</b>		<b>6,356</b>	<b>43,625</b>
<b>Other comprehensive income:</b>			
Revaluation of intangible assets	9	1,219	508
Tax on components of other comprehensive income	7	(193)	(100)
Currency translation differences - Group		3,454	1,595
- Joint Ventures	11	(887)	634
- Associates	11	(123)	220
- Non-controlling interests		(17)	10
Other comprehensive income for the year		<b>3,453</b>	<b>2,867</b>
<b>Total comprehensive income for the year</b>		<b>9,809</b>	<b>46,492</b>
<b>Total comprehensive income attributable to:</b>			
- Owners of the parent		9,850	44,423
- Non-controlling interests	20	(41)	2,069
<b>Total comprehensive income for the year</b>		<b>9,809</b>	<b>46,492</b>

The accompanying notes form part of the financial statements.

## Consolidated balance sheet at 30 June 2018

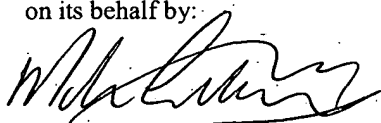
### A helpful summary

The consolidated balance sheet provides a snapshot of the Group's assets and liabilities at the year-end date. Generally, assets can be defined as items or amounts owned or controlled by the Group that can be utilised to generate future benefit, liabilities on the other hand are amounts we owe or are estimated to owe in the future as a result of actions that have already been taken. The difference between total assets and total liabilities is referred to as 'net assets' (or 'net liabilities') and is an indication of the financial health of the Group.

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Intangible assets	9	18,891	21,171
Tangible assets	10	58,739	47,904
Investments in joint venture undertakings	11	69,537	49,850
Investments in associate undertakings	11	5,804	5,187
		<b>152,971</b>	<b>124,112</b>
<b>Current assets</b>			
Stocks	12	40,634	35,749
Debtors: amounts falling due within one year	13	37,796	30,461
amounts falling due after more than one year	13	20,530	19,481
Cash at bank and in hand		36,565	46,009
		<b>135,525</b>	<b>131,700</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(113,590)</b>	<b>(86,253)</b>
<b>Net current assets</b>		<b>21,935</b>	<b>45,447</b>
<b>Total assets less current liabilities</b>		<b>174,906</b>	<b>169,559</b>
<b>Provisions for liabilities</b>	15	<b>(10,276)</b>	<b>(12,489)</b>
<b>Net assets</b>		<b>164,630</b>	<b>157,070</b>
<b>Capital and reserves</b>			
Called up share capital	18	8	8
Treasury share reserve	18	1	-
Share premium account	19	987	987
Capital redemption reserve	19	3	3
Merger reserve	19	13,988	13,988
Other reserves	19	142	142
Retained earnings		145,253	137,653
		<b>160,382</b>	<b>152,781</b>
<b>Equity attributable to owners of the parent</b>		<b>160,382</b>	<b>152,781</b>
Non-controlling interests	20	4,248	4,289
<b>Total equity</b>		<b>164,630</b>	<b>157,070</b>

The accompanying notes form part of the financial statements.

These financial statements on pages 14 to 55 were approved by the Board of Directors on 8 March 2019 and signed on its behalf by:



Mr M Constantine  
Director  
Lush Cosmetics Limited  
Registered Number - 04162033

## Company balance sheet at 30 June 2018

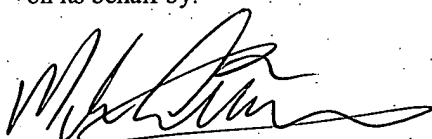
### A helpful summary

This is the balance sheet for the parent company, Lush Cosmetics Limited, only.

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Investments	11	7,078	7,078
<b>Current assets</b>			
Debtors	13	128	19
Cash at bank and in hand		190	-
		<u>318</u>	<u>19</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(174)</u>	<u>(780)</u>
<b>Net current assets / (liabilities)</b>		<u>144</u>	<u>(761)</u>
<b>Total assets less current liabilities</b>		<u>7,222</u>	<u>6,317</u>
<b>Net assets</b>		<u>7,222</u>	<u>6,317</u>
<b>Capital and reserves</b>			
Called up share capital	18	8	8
Treasury share reserve	18	1	-
Share premium account	19	987	987
Capital redemption reserve	19	3	3
Other reserves	19	6,080	6,080
Retained earnings / (losses)		<u>143</u>	<u>(761)</u>
<b>Total equity</b>		<u>7,222</u>	<u>6,317</u>

The accompanying notes form part of the financial statements.

These financial statements on pages 14 to 55 were approved by the Board of Directors on 8 March 2019 and signed on its behalf by:



Mr M Constantine  
Director  
Lush Cosmetics Limited  
Registered Number - 04162033

## Consolidated statement of changes in equity for the year ended 30 June 2018

### At a glance summary

This statement shows the movement in net assets of the Group during the year. The reconciliation breaks down the movement between profits generated by the Group, other items of comprehensive income/(expense), changes in ownership interests and distributions to the shareholders.

	Note	Called up share capital	Treasury share reserve	Share premium account	Capital redemption reserve	Merger and other reserves	Retained earnings	Total shareholder funds	Non- controlling interests	Total equity
As at 1 July 2016	8	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit for the financial year		-	-	-	-	-	41,566	41,566	2,059	43,625
Other comprehensive income:		-	-	-	-	-	508	508	-	508
Change in value of Bitcoin		-	-	-	-	-	(100)	(100)	-	(100)
Tax on other comprehensive income		-	-	-	-	-	2,449	2,449	10	2,459
Arising on exchange differences		-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-	-	44,423	44,423	2,069	46,492
Change in associates and NCI reserves		-	-	-	-	-	(4,033)	(4,033)	(8)	(4,121)
Dividends paid	8	-	-	-	-	-	(1,500)	(1,500)	-	(1,500)
<b>As at 30 June 2017</b>	8	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit for the financial year		-	-	-	-	-	6,380	6,380	(24)	6,356
Other comprehensive income:		-	-	-	-	-	1,219	1,219	-	1,219
Change in value of Bitcoin		-	-	-	-	-	(193)	(193)	-	(193)
Tax on other comprehensive income		-	-	-	-	-	2,444	2,444	(17)	2,427
Arising on exchange differences		-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-	-	9,850	9,850	(41)	9,809
Dividends paid	8	-	-	-	-	-	(2,250)	(2,250)	-	(2,250)
New shares issued	18	-	1	-	-	-	-	1	-	1
<b>As at 30 June 2018</b>	8	£000	£000	£000	£000	£000	£000	£000	£000	£000

The accompanying notes form part of the financial statements.

**Company statement of changes in equity**  
*for the year ended 30 June 2018*

	Note	Called up share capital £000	Treasury share reserve £000	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
As at 1 July 2016		8	-	987	3	6,080	(362)	6,716
Profit for the financial year	28(b)	-	-	-	-	-	1,101	1,101
Dividends paid	8	-	-	-	-	-	(1,500)	(1,500)
<b>As at 30 June 2017</b>		<b>8</b>	<b>-</b>	<b>987</b>	<b>3</b>	<b>6,080</b>	<b>(761)</b>	<b>6,317</b>
Profit for the financial year	28(b)	-	-	-	-	-	3,154	3,154
Dividends paid	8	-	-	-	-	-	(2,250)	(2,250)
New shares issued	18	-	1	-	-	-	-	1
<b>As at 30 June 2018</b>		<b>8</b>	<b>1</b>	<b>987</b>	<b>3</b>	<b>6,080</b>	<b>143</b>	<b>7,222</b>

The accompanying notes form part of the financial statements.

## Consolidated statement of cash flows

for the year ended 30 June 2018

### A helpful summary

The table below shows the movement of cash in and out of the Group during the year. It shows how much the Group businesses have generated through trading, what this cash has been spent on and the available cash reserves at the end of the year.

	Note	2018 £000	2017 £000
<b>Net cash from operating activities</b>	21	10,979	39,131
Taxation paid		(7,437)	(8,913)
<b>Net cash generated from operating activities</b>		<b>3,542</b>	<b>30,218</b>
<b>Investing activities</b>			
Dividends received from joint ventures and associates	11	3,065	9,504
Interest received	5	134	92
Purchase of intangible and tangible fixed assets		(35,586)	(32,610)
Proceeds on disposal of intangible and tangible fixed assets		2,265	1,556
Investment in associates and subsidiary undertakings		(161)	(103)
<b>Net cash used in investing activities</b>		<b>(30,283)</b>	<b>(21,561)</b>
<b>Financing activities</b>			
Increase in borrowings		43,468	17,709
Repayment of bank loans		(23,768)	(9,674)
Interest paid	5	(413)	(649)
Dividends paid to the owners of the parent	8	(2,250)	(1,500)
Dividends paid to minority interests	20	-	(168)
<b>Net cash generated from financing activities</b>		<b>17,037</b>	<b>5,718</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(9,704)</b>	<b>14,375</b>
Cash and cash equivalents at the beginning of the year		46,009	32,270
<b>Non-cash movements</b>			
Exchange adjustments on cash and cash equivalents		190	(426)
Issue costs on bank loans		70	(210)
<b>Cash and cash equivalents at the end of the year</b>		<b>36,565</b>	<b>46,009</b>

The accompanying notes form part of the financial statements.

## Notes to the financial statements

### 1 Turnover analysis

<b>A helpful summary</b>	The first part of this note provides a breakdown of turnover by geographic region.
	The second part of this note breaks down the turnover of our Group countries by different classes of business. Sales are exclusive of the sales tax we charge to customers and pass on to local governments.

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

	UK and Europe		Americas		Asia		Rest of world		Total	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
<b>Turnover by origin</b>										
Total turnover	510,468	476,212	5,241	4,664	120,055	120,578	75,639	71,644	711,403	673,098
Inter-group sales	(159,787)	(151,232)	(831)	(858)	(3,458)	(1,861)	(22,877)	(21,359)	(186,953)	(175,310)
<b>Group turnover to third parties</b>	<b>350,681</b>	<b>324,980</b>	<b>4,410</b>	<b>3,806</b>	<b>116,597</b>	<b>118,717</b>	<b>52,762</b>	<b>50,285</b>	<b>524,450</b>	<b>497,788</b>
Share of joint ventures' turnover	-	-	203,279	218,608	-	-	-	-	203,279	218,608
Share of associates' turnover	13,394	13,118	888	645	14,933	12,686	716	903	29,931	27,352
<b>Total turnover (including share of joint ventures and associates)</b>	<b>364,075</b>	<b>338,098</b>	<b>208,577</b>	<b>223,059</b>	<b>131,530</b>	<b>131,403</b>	<b>53,478</b>	<b>51,188</b>	<b>757,660</b>	<b>743,748</b>

Analysis of Group turnover by class of business;

	2018 £000	2017 £000
Retail sales	421,472	400,122
Digital sales	42,106	38,387
Manufacturing sales	60,872	59,279
	<b>524,450</b>	<b>497,788</b>

### Accounting Policies

#### Turnover

Turnover consists of amounts receivable for cosmetic products supplied and spa treatments rendered through our Group retail and digital outlets. Turnover also includes raw material and finished product sales from Group manufacturing companies to retail companies where a controlling interest is not held. Turnover is stated net of returns, discounts and value added taxes and is measured at fair value.

Sales of finished cosmetic products made through retail outlets are recognised upon sale to the customer. Sales of cosmetic products made through the Group's 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.

Sales of raw materials and finished goods to retail companies where no controlling interest is held are recognised when the risks and rewards have been passed to the customer. This is typically when goods are despatched from the manufacturing site.

## Notes to the financial statements (continued)

### 2 Group operating profit

#### A helpful summary

This note splits out the main components within cost of sales and operating expenses in our profit and loss account on page 14.

The operating profit before taxation is stated after charging/(crediting):	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Depreciation of tangible assets (see note 10)	<b>17,754</b>	15,956
Impairment of tangible assets (see note 10) - standard	<b>1,290</b>	1,426
- exceptional (see below)	<b>332</b>	-
Amortisation of goodwill and other intangible assets (see note 9)	<b>7,151</b>	1,935
Impairment of intangible assets (see note 9) - standard	<b>(2,252)</b>	277
- exceptional (see below)	<b>1,365</b>	-
(Profit) / Loss on disposal of tangible and intangible assets	<b>(346)</b>	662
Net royalty expense	<b>9,567</b>	7,681
Inventory recognised as an expense	<b>98,283</b>	82,651
Impairment of inventory	<b>1,156</b>	649
Operating lease rentals – Other	<b>1,803</b>	686
- Property	<b>64,635</b>	61,385
Foreign exchange loss / (gain)	<b>2,931</b>	(1,033)
Gain in fair value on forward exchange contracts	<b>(192)</b>	(592)
Staff costs (see note 4)	<b>224,902</b>	202,653
Other operating expenses – exceptional (see below)	<b>3,432</b>	-

#### Exceptional costs

The exceptional costs recognised above relate to material, non-recurring expenditures incurred in the year ended 30 June 2018. The costs includes the following;

- During the year ended 30 June 2018 the decision was taken by management to close our Brazilian operations, SWIL Brasil Comerica de Cosmetics e Produtos de Beleza Ltda and LIWS Industria de Cosmeticos Ltda. Closure costs incurred in the cessation of the business were charged to the consolidated profit and loss account, which included £1,753,000 relating to committed lease costs, staff costs and other operating expenses and a further £1,697,000 relating to impaired tangible fixed assets and key money.
- A further exceptional cost of £1,679,000 has been recorded within operating expenses relating to non-recurring employee related liabilities.

Auditor's remuneration:	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Audit of these financial statements	<b>90</b>	83
Amounts receivable by auditor and their associates in respect of:		
- Audit of financial statements of subsidiaries, joint ventures and associates pursuant to legislation	<b>392</b>	548
- Other services relating to taxation	<b>186</b>	100
- All other services	<b>74</b>	38

## Notes to the financial statements (continued)

### 3 Remuneration of directors

A helpful summary	This note sets out the total amounts paid to the directors of Lush Cosmetics Limited, the parent company, by any of the Group companies. It includes all forms of remuneration including salary, bonuses and pension contributions.
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	2018 £000	2017 £000
Directors' emoluments	600	1,350

The aggregate of emoluments received by the highest paid director was £200,000 (2017: £450,000). The Group has made £nil payments to the Company's defined contribution pension scheme on behalf of the highest paid director (2017: £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 (2017: £nil) on behalf of the directors to the Company's defined contribution pension scheme.

The directors received no emoluments (2017: £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.

### 4 Staff numbers and costs

A helpful summary	This note sets out the total number of employees by department across the group and also the total group payroll costs, split by wages and salaries, social security costs and pension costs.
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The monthly average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Administration	807	724
Digital	435	221
Manufacturing	2,645	2,494
Retail	8,484	7,537
	<u>12,371</u>	<u>10,976</u>

## Notes to the financial statements (continued)

### 4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	195,199	175,706
Social security costs	24,498	22,862
Other pension costs	5,205	4,085
	<u>224,902</u>	<u>202,653</u>

The Company employs no staff (2017: nil).

### Key management compensation

Key management includes the directors and eight members of senior management of the Group (2017: eight). The compensation paid or payable to key management for employee services is shown below:

	2018 £000	2017 £000
Salaries and other short-term benefits	1,769	3,431
Post-employment benefits	2	2
	<u>1,771</u>	<u>3,433</u>

### Accounting Policies

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 benefits, are recognised as an expense in the period in which the benefit is earned in return for the service provided and recorded on an accruals basis.

#### 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. The assets of the schemes are held separately from those of the Group in an independently administered fund.

#### Other employment benefit plans

There are other post-employment benefit schemes in operation across the Group, including end of service schemes in Italy, France and the UAE. Amounts owed are generally linked to length of service. Local managements' estimates of the future benefits payable in the current and prior periods are accrued at the balance sheet date.

#### Bonus arrangements

The Group operates a number of monthly and quarterly bonus plans for retail, manufacturing and administrative employees which are recognised through the profit and loss account on an accruals basis.

## Notes to the financial statements (continued)

### 5 Net interest (payable)/receivable and similar items

A helpful summary	<p>This note breaks down the components of the Group's net interest charge for the year. The main component is the interest incurred on the bank borrowings that are used to fund the Group's investment and working capital requirements. The total charge also includes annual amortisation of the issue costs that were incurred when the bank borrowings were renewed.</p> <p>Note 6 contains a similar breakdown in respect of our share of joint ventures and associates' interest charge.</p>
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	2018 £000	2017 £000
Interest payable on bank loans	(376)	(544)
Other interest payable	(37)	(20)
Amortisation of issue costs on bank loan	(70)	(85)
Bank interest receivable	130	90
Other interest receivable	4	2
	<hr/>	<hr/>
<b>Total Group net interest payable and similar items</b>	<b>(349)</b>	<b>(557)</b>
	<hr/>	<hr/>

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

	2018 £000	2017 £000
<b>Joint ventures</b>		
Interest payable on bank loans and overdrafts	(241)	(210)
Bank interest receivable	439	40
	<hr/>	<hr/>
<b>Group share of joint ventures' interest receivable / (payable) and similar items</b>	<b>198</b>	<b>(170)</b>
	<hr/>	<hr/>
<b>Associates</b>		
Interest receivable / (payable) on bank loans	1	(36)
	<hr/>	<hr/>
<b>Group share of associates' interest receivable / (payable) and similar items</b>	<b>1</b>	<b>(36)</b>
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 7 Tax on profit

A helpful summary	This note summarises the tax charge for the year, split between current and deferred tax. Current tax is the tax arising on the taxable income for the year, whereas deferred tax is a result of timing differences between accounting and tax profit that are expected to unwind over time. The tax charge includes charges in respect of Group companies and our share of charges in respect of joint ventures and associates.	
Analysis of charge in year;	<b>2018</b> <b>£000</b>	2017 £000
<b>Current Tax</b>		
<i>UK current tax</i>		
UK current tax on income for the year	<b>2,994</b>	6,364
Adjustments in respect of prior periods	<b>(272)</b>	613
Double taxation relief	<b>(313)</b>	(220)
<i>Foreign current tax</i>		
Foreign tax	<b>1,856</b>	3,071
Adjustments in respect of prior periods	<b>17</b>	527
Share of joint ventures' current tax	<b>9,552</b>	18,523
Adjustments in respect of prior periods: joint ventures	<b>(1,006)</b>	(251)
Share of associates' current tax	<b>417</b>	525
Total current tax	<b>13,245</b>	29,152
<b>Deferred tax</b>		
Current year movement in timing differences	<b>4,174</b>	287
Impact of change in tax rate	<b>166</b>	43
Adjustments in respect of prior periods	<b>(234)</b>	152
Share of joint ventures' deferred tax	<b>(421)</b>	(705)
Adjustments in respect of prior periods: joint ventures	<b>142</b>	947
Impact of change in tax rate: joint ventures	<b>(11)</b>	-
Share of associates' deferred tax	<b>6</b>	(19)
Total deferred tax	<b>3,822</b>	705
Tax on profit	<b>17,067</b>	29,857
<b>Tax expense included in other comprehensive income</b>	<b>2018</b> <b>£000</b>	2017 £000
Current tax	<b>(100)</b>	100
Deferred tax	<b>293</b>	-
Total tax expense included in other comprehensive income	<b>193</b>	100

## Notes to the financial statements (continued)

### 7 Tax on profit (continued)

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

The total tax charge for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.75%). The differences are explained below.

	2018 £000	2017 £000
Total tax reconciliation		
Profit before taxation	23,423	73,482
Total tax at 19% (2017: 19.75%)	4,450	14,513
Effects of:		
Current year losses for which no deferred tax has been recognised (i)	6,975	2,848
Different tax rates on overseas earnings (ii)	3,090	6,285
Expenses not deductible for tax purposes (iii)	2,407	3,939
Deferred tax on unremitted earnings (iv)	1,949	426
Adjustments in respect of prior periods (v)	(1,353)	1,988
Utilisation of unrecognised tax losses brought forward (vi)	(498)	(267)
Non-taxable income (vii)	(223)	-
Remeasurement of deferred tax (viii)	155	43
Foreign taxes (ix)	115	456
Changes in recognition of deferred tax assets (x)	-	(374)
Total tax charge (see above)	17,067	29,857

The Group's total tax charge of £17,067,000 on a profit before tax of £23,423,000 gives an effective tax rate (ETR) of 72.9% compared to 40.6% last year and 53.9% higher than the UK standard rate of 19.0%. The factors contributing to the higher ETR are as follows:

- (i) Current year losses for which no deferred tax has been recognised. This relates to Group companies in Japan, Australia Retail and Europe where losses have been incurred in the financial year but no tax credit has been recognised in the form of a deferred tax asset. In this instance a deferred tax asset can only be recognised where it is anticipated that the companies will make a profit in the foreseeable future. Whilst management are confident that these markets will return to profitability, we have taken the view not to recognise a deferred tax asset until the point that this occurs.
- (ii) Different tax rates on overseas earnings. The impact of profits taxed at a higher rate (most notably in North America and Australia Manufacturing) has a negative impact on our ETR. We also have a presence in countries where the tax rate is lower than the UK but the results are not significant enough to have an impact on our ETR.
- (iii) Expenses not deductible for tax purposes. This relates to expenses included in our financial statements where no tax deduction is available, therefore contributing to our higher ETR. The majority of these expenses relate to legal and professional fees, and entertaining expenses (mainly arising in our North American business where the impact of the US tax system reform has restricted the deduction of entertaining expenses).
- (iv) Deferred tax on unremitted earnings. In July 2018 the Group received a significant distribution from our North American business as summarised in Note 27: 'Post balance sheet events'. Although this income was not received in the financial year being reported upon, we are required to provide for the tax arising on the remittance. This is accounted for within our deferred tax charge for the year, and has a negative impact on our ETR. The dividend income will be accounted for in the following year's results, where the ETR will benefit from the tax having already been provided for.
- (v) Adjustments in respect of prior years arise due to the difference between the estimated tax charge calculated for statutory accounts purposes, and the finalised tax charges subsequently filed with the relevant tax authorities.
- (vi) This represents the utilisation of tax losses from previous years against taxable profits of the current year. Where tax losses have been utilised and no benefit had previously been booked for accounts purposes (that is, deferred tax has not been recognised in respect of these losses) utilisation of these losses reduces our total tax charge, and therefore our ETR.

## Notes to the financial statements (continued)

### 7 Tax on profit (continued)

- (vii) Non-taxable income predominantly relates to research and development expenditure credits which have been booked for accounts purposes in the year but relate to amounts already considered for tax purposes in prior years, together with the release of related party debt provisions which are not taxable.
- (viii) The UK Corporation Tax rate will reduce to 17% with effect from 1 April 2020. The majority of this amount relates to this reduction, whereby the value of deferred tax assets which were previously recognised at 18% have been reduced.
- (ix) Included in our tax reconciliation is the impact of foreign tax not relieviable. This is the net result of where double tax relief is not available for foreign suffered. Foreign tax is suffered on payments to the UK entity from an overseas jurisdiction, in our case, withholding tax suffered on dividend, royalty or interest payments from overseas entities where a reduced withholding tax rate is not available, either through tax treaty or EU Directive. Where these amounts are taxable in the UK, relief is available to eliminate a double tax charge on a source by source basis.

Withholding tax is suffered on the remittance of dividends from our North American business, however as the dividend receipt itself is not taxable in the UK, relief for the withholding tax is not available, therefore the withholding tax suffered on these amounts is an additional tax cost to the business.

- (x) During the prior year, we recognised the impact of a reduction in the deferred tax recognised in our Australian Retail business, together with the benefit of a tax credit issued by the Croatian Government to support investment. No such adjustments have arisen this year.

#### UK corporation tax rate

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

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, extensive changes to the US tax system were substantively enacted through the 'Tax Cuts and Jobs Act' (the 2017 Act). One of the key changes introduced in the Act was the substantial reduction in the US Corporate tax rate from 35% to 21% with effect from 1 January 2018. In addition, further changes were made to restrict deductions for entertainment expenses and to accelerate the tax deduction for depreciation, allowing for a 100% deduction in the year an eligible asset is placed into service. The group share of joint venture taxes reflects the changes introduced by the 2017 Act.

**Japan** - The corporation tax charge in Japan is made up of inhabitants' tax in addition to the national corporation tax charge. The corporation tax rate reduced to 23.3% for taxable years beginning on or after 1 April 2018. The impact of the reduction is reflected in quantifying the recognised deferred tax on the timing differences arising in Japan.

<b>Accounting Policies</b>
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.
<b>Current tax</b>
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.
<b>Deferred tax</b>
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 as utilised, or 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)

### 8 Dividends

A final dividend payment for the year ended 30 June 2017 of £164.26 per share, a total of £1,500,000, was proposed on 1 March 2018. An interim dividend in respect of the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed on 7 March 2018. A total of £1,350,033 and £900,022 respectively was paid to the shareholders on the same day. The unpaid amount is in respect of the shares held by The Lush Cosmetics Group Employee Benefit Trust which has waived its right to receive the dividend in line with the trust deed (*see note 18*).

These dividends were funded through dividends received from the Company's immediate subsidiary, Lush Ltd.

A final dividend for the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed on 18 July 2018 of which £900,022 was paid on the same day. The unpaid amount is in respect of the shares held by The Lush Cosmetics Group Employee Benefit Trust which has waived its right to receive the dividend in line with the trust deed.

### 9 Intangible assets

A helpful summary	Intangible assets have no physical form. These assets are considered to have value for the business beyond the current accounting period.
	The Group holds four main types of intangible assets on its balance sheet which are:
	(i) bitcoin; a crypto currency
	(ii) goodwill arising on past acquisitions; the difference between the consideration paid and the fair value of the net assets acquired
	(iii) purchased key money; being amounts paid to enter a leasehold property
	(iv) computer software in relation to the computer systems that we use.
	This note details the additions, disposals of intangible assets in the year, together with amortisation (a charge to the profit and loss account to represent usage of these assets).

Group	Bitcoin	Goodwill	Key money	Software and website costs	Total
	£000	£000	£000	£000	£000
<b>Cost (or valuation)</b>					
At 1 July 2017	906	10,393	16,541	9,704	37,544
Additions	-	-	2,442	964	3,406
Disposals	-	-	(2,226)	(374)	(2,600)
Foreign exchange	-	-	(170)	(14)	(184)
Revaluation	1,219	-	-	-	1,219
At 30 June 2018	<b>2,125</b>	<b>10,393</b>	<b>16,587</b>	<b>10,280</b>	<b>39,385</b>
<b>Accumulated amortisation and impairment</b>					
At 1 July 2017	-	6,989	2,737	6,647	16,373
Amortisation charged in year	-	302	5,008	1,841	7,151
Impairment charge	-	-	1,190	65	1,255
Impairment provision reversal	-	-	(1,943)	(199)	(2,142)
Disposals	-	-	(1,807)	(140)	(1,947)
Foreign exchange	-	-	(56)	(140)	(196)
At 30 June 2018	-	<b>7,291</b>	<b>5,129</b>	<b>8,074</b>	<b>20,494</b>
<b>Net book value</b>					
At 30 June 2018	<b>2,125</b>	<b>3,102</b>	<b>11,458</b>	<b>2,206</b>	<b>18,891</b>
At 30 June 2017	906	3,404	13,804	3,057	21,171

## Notes to the financial statements (continued)

### 9 Intangible assets (continued)

The key money impairment charge of £1,190,000 relates to the write-off of the carrying value of the key money held on the Brazilian stores which have been closed during the year.

The key money provision reversal has arisen as a result of an amendment to the accounting methodology for the carrying value of key money. Key money is now being amortised over the life of the lease, with the exception of key money held on French stores which is being amortised over 30 years. Where the amortised carrying value of the key money at 30th June 2018 is higher than the latest valuation obtained, an impairment charge has been recognised through the profit and loss account.

At 30 June 2017 a full valuation of the key money portfolio was obtained from independent valuation experts to determine whether an impairment to the carrying value of the asset based on the prevailing market value of the key money was required. A further high level review was performed by the independent valuation experts at 30 June 2018 in the markets where material key money balances are held, which did not indicate any material changes in value.

#### Company

The Company had no intangible assets as at 30 June 2018 (2017: £nil)

<b>Accounting Policies</b>
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.
<b>Amortisation rate</b>
Amortisation is calculated, using the straight line method, over their estimated useful lives as follows; - Software and website costs => 3 years - Key money => Life of the lease / 30 years for key money on French shops
<b>Impairment</b>
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 10 for the detailed accounting policy adopted for impairment reviews.
<b>Development costs</b>
Development costs that are directly attributable to the design and production of 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.
<b>Key money</b>
Key money relates to certain premiums paid on acquisition of short leasehold property in mainland Europe and reflects the right to lease a property on favourable terms. Key money is subject to amortisation (reflecting a change in policy during the year), as management consider the value of the asset to be consumed over time. The amortisation period is equal to the lease term, except for key money held in France, which is amortised over a period of 30 years. Market valuations are obtained from independent valuation experts on a regular basis in order to identify any impairment to the carrying value of the asset.
<b>Bitcoin</b>
Bitcoin are recognised as an intangible asset and carried at their fair value (the revaluation model). Any changes in value above the original cost are recognised through other comprehensive income and accumulated in equity. Changes in value below the original cost are recognised through the profit and loss account.
<b>Goodwill</b>
Goodwill arises on the acquisition of shares in subsidiary undertakings, joint ventures and associates and represents the excess of the fair value of the consideration paid for the shares over the fair value of the net assets acquired.  Goodwill is amortised on a straight-line basis over a period of 20 years based on management's experience and knowledge of the market.  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.

## Notes to the financial statements (continued)

### 10 Tangible assets

A helpful summary	Tangible assets have a physical form. These assets will be used to generate value for the business beyond the current accounting period.
	The Group holds three main types of tangible assets on its balance sheet which are:
	(i) Fixtures, fittings and equipment; mainly shop and factory fitout costs
	(ii) Computer equipment; mainly consisting of shop and office laptops
	(iii) Costs associated with land and buildings held on short-term leases (being less than 50 years)
	This note details the additions, disposals and transfers of these assets in the year, together with depreciation (a charge to the profit and loss account to represent usage of these assets).

	Short leasehold land and buildings	Fixtures, fittings and equipment	Computer equipment	Total
	£000	£000	£000	£000
<b>Group</b>				
<b>Cost</b>				
At 1 July 2017	5,635	113,361	8,795	127,791
Difference arising on exchange	(84)	(1,036)	(37)	(1,157)
Additions	1,632	29,153	2,133	32,918
Disposals	(1,810)	(9,489)	(439)	(11,738)
<b>At 30 June 2018</b>	<b>5,373</b>	<b>131,989</b>	<b>10,452</b>	<b>147,814</b>
<b>Accumulated depreciation and impairment</b>				
At 1 July 2017	2,303	71,601	5,983	79,887
Difference arising on exchange	(36)	(758)	(50)	(844)
Provided in year	415	15,785	1,554	17,754
Impairment charge	139	2,645	401	3,185
Impairment provision reversal	(20)	(1,507)	(36)	(1,563)
On disposals	(556)	(8,766)	(22)	(9,344)
<b>At 30 June 2018</b>	<b>2,245</b>	<b>79,000</b>	<b>7,830</b>	<b>89,075</b>
<b>Net book value</b>				
<b>At 30 June 2018</b>	<b>3,128</b>	<b>52,989</b>	<b>2,622</b>	<b>58,739</b>
<b>At 30 June 2017</b>	<b>3,332</b>	<b>41,760</b>	<b>2,812</b>	<b>47,904</b>

The amounts impaired at 30 June 2018 include the following:

- Management have conducted an impairment review of all retail stores that had made a negative retail margin in the financial year. The review indicated that the stores' net carrying amounts exceeded their recoverable amounts by £3,185,000 (2017: £1,330,000) and consequently they have been written down by this amount. Any impairment losses on retail stores that have been impaired in previous periods but no longer have an indication of impairment are reversed up to the depreciated carrying value of the assets had no impairment been booked.
- The impairment provision reversal of £1,563,000 is in relation to the release of the remaining provision originally booked on Japanese fixed assets held at 30 June 2015. In the view of management the conditions that resulted in the original impairment being booked no longer exist at the balance sheet date, as future cashflow forecasts for the Japanese business show the territory now generating positive future cashflows as a result of improving LFL growth and the closure of loss making shops. Tangible fixed assets held in the Japanese retail stores are subject to the standard store impairment review noted above.

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

## Notes to the financial statements (continued)

### 10 Tangible assets (continued)

#### Company

The Company does not own any fixed assets as at 30 June 2018 (2017: £nil).

#### 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:

- Freehold buildings => 50 years
- Short leasehold costs / improvements => lease term
- Fixtures, fittings and equipment => 5 years
- Computer equipment => 3 years

Land is not depreciated.

#### 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 non-financial 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 (CGU - cash generating unit). 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 CGU 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 (NBV). 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.

## Notes to the financial statements (continued)

### 11 Investments in subsidiaries, joint ventures and associated undertakings

<b>A helpful summary</b>	This note shows the Group's share of the results and the net assets of entities that the Group does not fully consolidate. Joint ventures include the US and Canadian entities, whilst the associates include other overseas entities in which the Group hold between 25 – 35% shareholdings.
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Group	Joint ventures £000	Associates £000
<b>Share of net assets</b>		
At 1 July 2017	49,850	5,187
Exchange differences	(887)	(123)
Share of profit for the financial year after interest and tax	22,599	1,619
Less dividends paid by joint ventures and associates	(2,025)	(1,040)
New share capital issued	-	161
	<hr/>	<hr/>
<b>At 30 June 2018</b>	<b>69,537</b>	<b>5,804</b>
	<hr/>	<hr/>

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 £30,855,000 (2017: £48,580,000).  
The total of the Group's profit before taxation from interests in associates was £2,042,000 (2017: £2,764,000).

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

	Joint ventures 2018 £000	Joint ventures 2017 £000	Associates 2018 £000	Associates 2017 £000
Share of turnover of joint ventures and associates	203,279	218,608	29,931	27,352
	<hr/>	<hr/>	<hr/>	<hr/>
Share of assets				
Share of fixed assets	35,835	33,597	2,337	3,069
Share of current assets	68,277	80,793	7,430	5,424
	<hr/>	<hr/>	<hr/>	<hr/>
	104,112	114,390	9,767	8,493
Share of liabilities				
Due within one year	(22,123)	(51,869)	(3,442)	(2,784)
Due after one year	(12,452)	(12,671)	(521)	(522)
	<hr/>	<hr/>	<hr/>	<hr/>
	(34,575)	(64,540)	(3,963)	(3,306)
	<hr/>	<hr/>	<hr/>	<hr/>
Total share of net assets	69,537	49,850	5,804	5,187
	<hr/>	<hr/>	<hr/>	<hr/>

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

### 11 Investments in subsidiaries, joint ventures and associated undertakings *(continued)*

Company	Shares in subsidiary and associated companies
	£000
Cost and net book value	
At 1 July 2017 and 30 June 2018	7,078

A full list of subsidiaries, joint ventures and associates has been listed in note 26 to these financial statements.

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

<b>Accounting Policies</b>
Investments in subsidiaries, joint ventures and associates are included in the Company balance sheet at historic cost, less impairment.
<b>Investment in joint ventures and associates</b>
The basis of consolidation for joint ventures and associates has been addressed in Note 28 – General Accounting Policies, section d).

### 12 Stocks

A helpful summary	This note shows the direct cost to the business of the stock that is held by the Group at the year end. This mainly consists of raw materials held for use in the manufacturing process and goods for resale held either at stores or at manufacturing sites prior to distribution. The stock value is stated after deducting provisions for the value of stock we do not expect to sell due to it being out of date, excessive or obsolete.
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	2018 £000	Group 2017 £000
Raw materials	23,986	25,743
Work in progress	3,351	1,761
Finished goods	13,297	8,245
	<u>40,634</u>	<u>35,749</u>

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

Stock is stated after provisions for impairment of £2,494,000 (2017: £1,867,000).

#### Company

The Company had no stock at 30 June 2018 (2017: £nil).

<b>Accounting Policies</b>
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 direct expenditure incurred in production. Work in progress includes raw material costs and an appropriate proportion of direct labour. Provisions are made for obsolete, excessive and out of date stock.

## Notes to the financial statements (continued)

### 13 Debtors

#### A helpful summary

This note provides a breakdown of the amounts owed to the group that have arisen from trading and other activities. The balances are shown net of any provisions where the recoverability of the debt is considered doubtful. They are split between short term items (which will be settled/redeemed within one year) and long term items (which will be settled/redeemed after more than one year).

	Group	
	2018 £000	2017 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	7,307	5,334
Amounts owed by joint ventures	3,371	3,790
Amounts owed by associates and related parties	3,273	1,869
Other debtors	4,999	3,368
Sales tax debtors	5,142	3,404
Deferred taxation (see note 16)	722	1,427
Derivative financial instruments	368	157
Prepayments and accrued income	12,614	11,112
	<b>37,796</b>	<b>30,461</b>
<b>Amounts falling due after more than one year:</b>		
Property deposits	18,588	15,869
Deferred taxation (see note 16)	1,942	3,612
	<b>58,326</b>	<b>49,942</b>

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 £277,000 (2017: £214,000).

	Company	
	2018 £000	2017 £000
Amounts owed by group undertakings	68	-
Sales tax debtors	60	19
	<b>128</b>	<b>19</b>

#### Accounting Policies

##### 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. Trade and other debtors are recognised at transaction price, less any provision. Debts are written off when there is no realistic prospect of recovery of the amounts owing.

##### Deferred taxation

Refer to Note 7 for the accounting policy on deferred tax assets.

##### Derivative financial instruments

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.

##### 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)

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

A helpful summary	Group	
	2018 £000	2017 £000
Bank loans ( <i>see below</i> )	37,526	17,567
Trade creditors	18,698	15,782
Amounts owed to associates and related parties	5,898	2,469
Corporation tax	758	4,749
Other sales tax creditors	5,404	5,077
Other taxation and social security	4,636	3,607
Other creditors	8,377	13,811
Derivative financial instruments	192	179
Accruals and deferred income	32,101	23,012
	<b>113,590</b>	<b>86,253</b>
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Bank loans</b>		
Within one year	37,526	17,567
	<b>37,526</b>	<b>17,567</b>

The main bank loan arrangement at 30 June 2018 is a £35,000,000 revolving credit facility in the name of Lush Cosmetics Limited and expiring 31 July 2019. The amount drawn down on the facility at 30 June 2018 was £23,924,000 (2017: £8,521,000). Cross guarantees exist between Lush Cosmetics Limited, Lush Ltd., Lush Retail Limited, Lush Manufacturing Limited, Lush BV, Lush GmbH, Lush Asia Limited, Lush Japan KK and Lush SAS.

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 2018 were £78,000 - these costs have been offset against the carrying value of the bank loan in creditors falling due within one year (2017: £147,000).

The bank loans due within one year also includes two separate facilities of ¥1,000,000,000 each, totalling £13,680,000 at year end exchange rates, taken out by Lush Japan KK with two Japanese banks to fund local working capital requirements and are repayable on demand.

The interest rate applied to the borrowings above are based on the relevant interbank borrowing rate plus a margin, dependent on the currency being borrowed. The margin applied is considered to be insignificant in the context of future interest charges expected to be incurred.

The Barclays facility is subject to covenant clauses, whereby the Group is required to meet certain key financial ratios at the end of each quarter. The Group did not meet the fixed charge cover clause for the quarter ending 30 June 2018, at which date a total of £23,924,000 had been drawn down and has been presented within current liabilities. In the event of a covenant breach the bank is contractually entitled to request for immediate repayment of the outstanding loan, but are now going to be focussed on the refinancing of the existing facility, which expires on 31 July 2019, on terms which are agreeable to both parties.

## Notes to the financial statements (continued)

### 14 Creditors: amounts falling due within one year (continued)

	Company	
	2018 £000	2017 £000
Amounts owed to Group undertakings	-	487
Amounts owed to related parties	50	176
Trade creditors	16	-
Other creditors	108	117
	<u>174</u>	<u>780</u>

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.

<b>Accounting Policies</b>
<b>Cash at bank and in hand</b>
Cash, for the purpose of the statement of cash flows, comprises cash in hand and bank deposits repayable on demand, less overdrafts payable on demand. Bank overdrafts, if any, are shown within borrowings in current liabilities.
<b>Financial liabilities</b>
Trade and other creditors, amounts owed to associates and related parties, bank loans and overdrafts are initially recognised at transaction price.
<b>Landlord contributions</b>
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.

## Notes to the financial statements (continued)

### 15 Provisions for liabilities

A helpful summary	This note shows liabilities that have arisen but where there is some uncertainty as to the timing and/or the cost to settle the liability in the future. The note provides an analysis of the Group's provisions by type, and shows how the value of each provision has changed during the year.
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	Onerous lease provision £000	Dilapidation provision £000	Other provisions £000	Deferred tax liability £000	Total £000
At 1 July 2017	5,135	5,155	1,710	489	12,489
Difference arising on exchange	(295)	(66)	(37)	(27)	(425)
Released during the year	(1,549)	(1,589)	(501)	-	(3,639)
Utilised during the year	(1,342)	(455)	(318)	-	(2,115)
Charged to the profit and loss account	(133)	910	1,068	2,040	3,885
Charged to other comprehensive income	-	-	-	293	293
Reclassification from deferred tax asset	-	-	-	(212)	(212)
At 30 June 2018	<b>1,816</b>	<b>3,955</b>	<b>1,922</b>	<b>2,583</b>	<b>10,276</b>

#### Onerous lease provision

The onerous lease provision of £1,816,000 (2017: £5,135,000) 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.

#### Dilapidation provision

The dilapidation provision of £3,955,000 (2017: £5,155,000) 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 expiry 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 £1,922,000 (2017: £1,710,000) relates to all other liabilities expected to arise as a result of past events within the Group. The provision includes 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 liability

See note 16 for analysis of the deferred tax liability at 30 June 2018.

<b>Accounting Policies</b>
<b>Provisions</b>
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.
<b>Contingencies</b>
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 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 Deferred taxation

#### A helpful summary

This note shows deferred tax which arises as a result of timing differences between accounting and tax profit that relates to future periods and are expected to unwind over time.

	Deferred taxation asset £000	Deferred taxation liability £000
At 1 July 2017	5,039	(489)
Reclassification	(212)	212
Charge to the profit and loss for the year	(2,153)	(2,021)
Effect of rate changes	(142)	(24)
Adjustment in respect of prior years	229	5
Charge to other comprehensive income	-	(293)
Foreign exchange adjustment	(97)	27
At 30 June 2018	<b>2,664</b>	<b>(2,583)</b>

The elements of the deferred taxation net asset are as follows:

	2018 £000	2017 £000
Differences between accumulated depreciation and capital allowances (i)	1,181	1,052
Unrelieved tax losses carried forward (ii)	-	301
Other timing differences (iii)	(807)	3,197
Revaluation of non-current assets (iv)	(293)	-
	<b>81</b>	<b>4,550</b>

- (i) Deferred tax arises in respect of tangible fixed assets where there is a difference between the tax treatment (capital allowances) and the accounting treatment (depreciation). A deferred tax asset arises where the tax value of the assets is higher than the accounting value, and therefore the future relief for tax purposes exceed the accounting add backs. The Group expects to utilise these allowances against future profits.
- (ii) Unrelieved tax losses can be carried forward for utilisation against profits of future years subject to restrictions in certain countries in respect of the amount of profits which can be reduced by historic losses. A deferred tax asset arises on these losses where there is sufficient evidence of their future utilisation, that is, it is probable that they will be recovered against future taxable profits.

At the balance sheet date there are unrelieved tax losses carried forward in the Group of £73,325,000 (2017: £47,928,000). No provision for a deferred tax asset has been made in respect of these losses as there is insufficient evidence whether they will be recovered against future profits. The largest components of unrecognised losses relate to our subsidiaries in Japan of £20,887,000 (2017: £15,873,000), Italy of £10,605,000 (2017: £7,167,000), Brazil of £20,056,000 (2017: £13,441,000) and Germany Manufacturing of £11,783,000 (2017: £7,328,000). These losses give rise to an unrecognised deferred tax asset of £24,056,000 (2017: £15,820,000).

In addition, deferred tax has not been recognised in respect of our Swedish and Spanish Retail businesses. It is anticipated that losses in respect of these businesses totalling £584,000 may be utilised within the next two years however given that there is insufficient proof of their utilisation at the balance sheet date we are unable to recognise a deferred tax asset in respect of these amounts. These losses give rise to an unrecognised deferred tax asset of £141,000 (2017: £131,000).

Unused tax losses can be carried forward indefinitely, with the exception of Japan and Portugal, which will expire within 10 years and 5 years respectively.

## Notes to the financial statements (continued)

### 16 Deferred taxation (continued)

(iii) Other timing differences consist of the following balances:

*Unremitted earnings:* We are required to recognise deferred tax on the unremitted earnings of our overseas entities. A deferred tax liability arises where such profits will only be assessed to tax in a future period, for example, when profits are distributed back by way of dividend. Deferred tax must be recognised unless it is probable that the timing difference will not reverse in the foreseeable future (i.e. the dividend will not be paid) and the investor is able to control the reversal of the timing difference (i.e. are we able to control when the dividend is paid). A provision of £2,375,000 (2017: £426,000) has been recognised in respect of the proportion of retained earnings in our North American business at the balance sheet date which are anticipated to be remitted to the UK in the foreseeable future. The deferred tax liability represents the withholding tax which will apply to the distribution.

Deferred tax has not been recognised in respect of our unremitted earnings of our non-UK subsidiaries on the basis that we intend to grow the businesses and reinvest their earnings locally. In addition, a provision has not been made for deferred tax in respect of our other businesses where shareholders agreements do not provide for the set remittance of profits, or for the balance relating to the working capital of the North American business, of approximately £875,000 (2017: £2,585,000).

*Stock profit adjustment:* Deferred tax is calculated and recognised in respect of the stock profit adjustment. This amount represents the tax arising on intercompany sales between related parties which are removed on consolidation.

*Croatian Government Incentive for Investment:* A tax credit is available to our Croatian Manufacturing business in respect of a government incentive for investments locally. A deferred tax asset has been recognised in respect of this amount of £311,000. If not utilised, this will expire within 8 years of the balance sheet date.

(iv) The Lush Group have an investment in Bitcoin: any gain arising on the sale of this investment would be taxable. Bitcoin are accounted for on a fair value basis within the accounts with the gain being recognised in other comprehensive income. For tax purposes deferred tax arises in order to account for the liability which would arise were the gain to be realised, giving rise to a deferred tax liability.

The amount of the net reversal of deferred tax expected to occur next year is £659,000 (2017: £1,427,000) relating to the reversal of existing timing differences on tangible fixed assets, other timing differences and utilisation of losses.

<b>Accounting Policies</b>
<b>Deferred tax liabilities</b>
Refer to Note 7 for the accounting policy used for deferred tax assets and liabilities.

## Notes to the financial statements (continued)

### 17 Financial Instruments

A helpful summary	This note summarises the main financial assets and liabilities held by the Group at the balance sheet date. All assets and liabilities have been recorded at their original cost less any provisions against them with the exception of the forward exchange contracts held by the Group, which have been recorded at their value to the business at the balance sheet date.
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The Group has the following financial instruments:

	2018 £000	2017 £000
<b>Financial assets</b>		
Financial assets at fair value through profit or loss		
- Derivative financial instruments ( <i>see below</i> )	368	157
Financial assets measured at amortised cost	37,538	30,230
	<u>          </u>	<u>          </u>
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss		
- Derivative financial instruments ( <i>see below</i> )	192	179
Financial liabilities measured at amortised cost	70,499	49,629
	<u>          </u>	<u>          </u>

#### 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 2018, the outstanding contracts are all due to mature within 12 months (*2017: 12 months*) of the year end. The Group is committed to sell £6,870,000 (*2017: £5,479,000*) for a fixed US dollar amount, to sell £6,305,000 (*2017: £2,546,000*) for a fixed EUR amount, and is committed to sell Y338,772,000 (*2017: Y141,059,000*), HK\$13,881,000 (*2017: HK\$7,008,000*), and AU\$4,917,000 (*2017: AU\$2,258,000*) for a fixed sterling amount.

The forward currency contracts are measured at fair value. The key inputs used in valuing the derivatives are the forward exchange rates appropriate for the contracts in place. The aggregated fair value of the forward foreign currency contracts at the year-end rate leaves a net asset of £176,000 (*2017: fair value liability of £22,000*).

<b>Accounting Policies</b>
<b>Financial assets</b>
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 and are initially recognised at transaction price. Trade and other debtors are recognised at transaction price, less any provision. Debts are written off when there is no realistic prospect of recovery of the amounts owing.
<b>Financial liabilities</b>
Trade and other creditors, amounts owed to associates and related parties, bank loans and overdrafts are initially recognised at transaction price.
<b>Derivative financial instruments</b>
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.

## Notes to the financial statements (continued)

### 18 Share capital

<b>A helpful summary</b>	This note provides details on the ultimate parent Company's share capital including the class of share capital and the rights that are attached to those shares. The shares issued to the Employee Benefit Trust during the year have been held in a separate reserve for accounting purposes.
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#### Group and Company

<i>Allotted, called up and fully paid</i>	Number	Called up share capital £000	Treasury share reserve £000
At 1 July 2017	8,219	8	-
New share capital issued	913	-	1
	<u>9,132</u>	<u>8</u>	<u>1</u>
At 30 June 2018			

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

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 were 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 trust deed signed by the trustees of the EBT and the Company states that the trustees shall waive and otherwise forgo any dividend in respect of any Lush Cosmetics Limited shares. The trustees also agree to abstain from voting any shares held by the EBT, unless directed by the directors of the Company.

The Group have accounted for the purchase of the share capital above as if it had purchased the shares directly and holds the shares in a Treasury share reserve.

### 19 Other reserves

<b>A helpful summary</b>	This note explains the nature of the 'other reserves' held by the Group on the balance sheet and how they have arisen. These reserves form part of the Group's total equity, but are not distributable to the shareholders.
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Reserves other than share capital, treasury share reserve and profit and loss reserve include;

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Other reserves £000
<b>Group</b>				
At 1 July 2017 and 30 June 2018	<u>987</u>	<u>3</u>	<u>13,988</u>	<u>142</u>

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

### 19 Other reserves *(continued)*

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Other reserves £000
<b>Company</b>				
At 1 July 2017 and 30 June 2018	987	3	-	6,080

#### Capital redemption reserve

The Group and Company capital redemption reserve consists of the nominal value of the Company's shares that have been 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 in exchange for the shares purchased and the net value of the investment has been accounted for in the merger reserve.

#### Other reserves

Of the other reserves balance, £142,000 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)

### 20 Non-controlling interests

#### A helpful summary

This note shows the net assets and profit that are attributable to external shareholders of companies that are controlled by the Lush Group, but where we do not hold 100% of the share capital. The note also shows dividends paid from these entities to external shareholders.

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

	2018 £000	2017 £000
Lush Retail Limited	3,365	3,165
Lush Fresh Handmade Cosmetics LLC	1,360	1,416
Lush MENA Trading Co	(464)	(398)
Happy Days WLL	24	149
Eetiline Kosmeetika OU	55	34
Lush Bulgaria O.D.D	22	17
Lush Peru SAC	(42)	(34)
Lush Swedru Ghana Limited	(72)	(60)
	<u>4,248</u>	<u>4,289</u>

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

	2018 £000	2017 £000
Lush Retail Limited	200	1,404
Lush Fresh Handmade Cosmetics LLC	(34)	390
Lush MENA Trading Co	(71)	(24)
Happy Days WLL	(125)	75
Eetiline Kosmeetika OU	20	24
B Never too Busy to be Beautiful Limited	-	8
Lush Bulgaria O.D.D	5	11
Lush Baltia	-	106
LB-LIT UAB	-	91
Lush Peru SAC	(7)	(14)
Lush Swedru Ghana Limited	(12)	(12)
	<u>(24)</u>	<u>2,059</u>

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

	2018 £000	2017 £000
At 1 July	4,289	2,308
Total comprehensive income attributable to non-controlling interests	(41)	2,069
On acquisition / disposal of non-controlling interests	-	80
Dividends paid to non-controlling shareholders	-	(168)
At 30 June	<u>4,248</u>	<u>4,289</u>

## Notes to the financial statements (continued)

### 21 Notes to the cash flow statement

<b>A helpful summary</b>	This note shows how our operating profit figure, as reported in the consolidated profit and loss account, is reconciled to the net cash from operating activities as shown at the beginning of the cash flow statement on page 20. The reconciling items include non-cash transactions included in the profit figure such as depreciation, amortisation and exchange differences and fluctuations in the working capital of the business during the year.
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	2018 £000	2017 £000
<b>Reconciliation of operating profit to net cash flow from operating activities</b>		
<b>Profit for the financial year</b>	<b>6,356</b>	<b>43,625</b>
Tax on profit	17,067	29,857
Net interest expense	150	763
Income from interest in associates and joint ventures	(32,698)	(51,550)
<b>Operating (loss) / profit</b>	<b>(9,125)</b>	<b>22,695</b>
Amortisation of goodwill and other intangible assets	7,151	1,935
Impairment of intangible assets	(887)	277
Depreciation of tangible assets	17,754	15,956
Impairment of tangible assets	1,622	1,426
(Profit) / Loss on disposal of tangible and intangible assets	(346)	662
Increase in stock	(4,885)	(9,174)
Increase in debtors	(10,548)	(11,460)
Increase in creditors	11,356	10,148
(Decrease) / Increase in provisions for liabilities	(4,307)	7,541
Exchange differences	3,194	(875)
<b>Net cash flow from operating activities</b>	<b>10,979</b>	<b>39,131</b>

### 22 Commitments and contingent liabilities

<b>A helpful summary</b>	The note shows the capital expenditure that the Group is contractually committed to spending at the balance sheet date. Part b) sets out the total future lease payments, mainly in relation to its shop portfolio, that the Group is committed to make, split between the periods that the payments will fall due. Part c) shows the guarantees that the Group has entered into as part of its financing relationships.
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a) The Group had capital commitments of £567,000 as at 30 June 2018 (£3,268,000 as at 30 June 2017). The Company had no capital commitments at 30 June 2018 or 30 June 2017.

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

Group	Property		Plant and machinery	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Payments due:</b>				
Within one year	64,608	54,606	173	224
In the second to fifth years inclusive	170,091	137,351	341	232
Over five years	80,313	55,487	-	-
	<b>315,012</b>	<b>247,444</b>	<b>514</b>	<b>456</b>

## Notes to the financial statements (continued)

### 22 Commitments and contingent liabilities (continued)

#### b) Operating lease commitments (continued)

##### Company

The Company had no non-cancellable operating leases as at 30 June 2018 (2017: none).

#### c) Contingent liabilities

##### Group

A number of the companies within the Group form part of the security guaranteeing the borrowings of some of its fellow group undertakings as part of the Barclays revolving credit facility (see note 14). 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, Lush SASU and Lush Japan KK. The amount of borrowings outstanding at 30 June 2018 was £23,924,000 (2017: £8,521,000).

The Group has also issued guarantees to third parties over lease arrangements and other transactions. The amount guaranteed at 30 June 2018 was £4,207,000 (2017: £3,471,000).

#### d) Exemption from audit

The Group 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 2018.

- 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 £2,000 (2017: £3,000).

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.	

### 23 Pension schemes

A helpful summary	This note summarises the Group's outstanding liabilities at the balance sheet date arising from pension arrangements and other similar long term employment benefit arrangements within the Lush Group.
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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 4 for contributions payable during the year. There is a net accrual amount outstanding of £385,000 at the year-end (2017: £119,000).

Lush Italia SRL has an accrual for £92,000 (2017: £81,000) 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 £39,000 (2017: £24,000) 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.

Accounting Policies	
Refer to Note 4 for the accounting policy on pension schemes and similar arrangements.	

## Notes to the financial statements (continued)

### 24 Related party disclosures

#### A helpful summary

This note provides details of transactions and balances between the Group and its 'related parties'. Related parties can include people (such as the shareholders, directors or key management personnel) and their close family, as well as entities outside of the Group (such as associates and joint ventures).

During the year, the Group paid rent for properties jointly owned by Mr M Constantine and Mrs M Constantine, amounting to £44,000 (2017: £45,000). 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)
	2018	2017	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000	£000	£000
Lush Handmade Cosmetics Limited	39,407	38,609	-	-	24	36	3,374	3,795
Lush US Inc	-	-	-	-	2	105	(3)	(5)
Lush Russia LLC	4,336	4,479	-	(328)	-	(4)	262	163
Yulshimhee Co. Limited	8,091	7,357	2,204	1,935	247	486	1,362	1,147
Lush Switzerland AG	2,556	2,695	370	397	26	62	163	323
Fersk Kosmetikk AS	929	610	-	-	88	64	79	57
Lush Ukraine TZOV	591	484	-	-	9	3	71	33
UKM Cosméticos Naturales, S.A de C.V	495	425	-	-	6	10	114	38
Green Bubbles Cosmetics Propriety Limited	948	932	-	-	23	21	115	69
Sash Natural Pte Limited	775	463	-	-	21	17	71	-
Lush Panama Inc	212	109	-	-	12	2	34	39
Natha Pure Co Limited	395	215	-	-	10	10	24	18
Lush Slovenia D.O.O	240	224	-	-	-	-	17	27
Lush Sarajevo D.O.O	112	75	-	-	-	-	9	12
Prosrednik Promet D.O.O	564	506	-	-	-	-	50	46
Lush IKE	102	65	-	-	-	-	3	6
Cosmetic Warriors Limited	26	-	(18,600)	(15,023)	10,814	9,514	(5,192)	(2,052)
Ping Pong Sourcing Limited	-	-	-	-	-	11	(456)	(417)
The Sound Approach	1	-	-	-	10	10	2	3
ECC Records Limited	5	-	-	-	99	9	71	3
Birds of Poole Harbour	-	-	-	-	183	-	1	-

Cosmetic Warriors Limited, Ping Pong Sourcing Limited, The Sound Approach, ECC Records Limited and Birds of Poole Harbour are considered to be related parties as they share a degree of common ownership.

Recharges with related parties include costs in respect of payroll costs, other central costs such as travel and meeting costs and stock delivery and wastage costs borne by the Group on behalf of the related parties. The cost recharged to Birds of Poole Harbour relates to the fit out costs incurred on new offices that were initially borne by Lush Ltd. These costs were fully repaid by the balance sheet date.

#### Company

During the year the Company was recharged costs of £260,000 (2017: £176,000) by Cosmetic Warriors Limited, a related party. At 30 June 2018 the Company owes a balance of £50,000 (2017: £176,000) 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.

#### Accounting Policies

The Group discloses transactions and balances with all related parties which are not subsidiaries within the same Group. 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.

## Notes to the financial statements (continued)

### 25 Ultimate controlling party

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

### 26 Subsidiaries, joint ventures and associates

A helpful summary	This note is a statutory requirement and lists the details of subsidiaries, joint ventures and associates within the Lush Group.
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At 30 June 2018, 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 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 Distribution Limited	1 Market Close, Poole, Dorset, BH15 1NL, England	Distribution of cosmetic products	Ordinary - 87%
B Never too Busy to be Beautiful Ltd	29 The High Street, Poole, Dorset, BH15 1AB, England	Dormant	Ordinary - 75%
Lush SASU	77 Boulevard Voltaire, 75011, Paris, France	Retailer of cosmetic products	Ordinary - 100%
Lush GmbH	Klosterstraße 64, 10179 Berlin, Germany	Retailer of cosmetic products	Ordinary - 100%
Lush Manufacturing GmbH	209-215 Bonner Straße, 40589, Dusseldorf, Germany	Manufacturer of cosmetic products	Ordinary - 100%
Lush Italia SRL	Via Atto Vannucci 13, 20135 Milan, Italy	Retailer of cosmetic products	Ordinary - 100%
Lush Manufacktura DOO	5 Augusta Šenoe, 0434, Strmec, Croatia	Manufacturer of cosmetic products	Ordinary - 100%
Lush Cosmetics S.L	Alcala, nº 104, 28009, Madrid, Spain	Retailer of cosmetic products	Ordinary - 100%
Lush BV	Kalverstraat 121-123, 1012 PA, Amsterdam, Netherlands	Retailer of cosmetic products	Ordinary - 100%
Lush Sweden AB	Hammarby Fabriksväg 43, 12030 Stockholm, Sweden	Retailer of cosmetic products	Ordinary - 100%
Lush GmbH	Barnabitengasse 6/16, 1060 Wien, Vienna, Austria	Retailer of cosmetic products	Ordinary - 100%
Lush NV	Nieuwstraat 22, 1000 Brussels Belgium	Retailer of cosmetic products	Ordinary - 100%

## Notes to the financial statements (continued)

### 26 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 Dublin Limited	116 Grafton Street, Dublin 2, Republic of Ireland	Retailer of cosmetic products	Ordinary – 87%
Lush Hungary Kft	1052, Kristóf tér 3, Budapest, Hungary	Retailer of cosmetic products	Ordinary – 100%
Nature & You Lda	Amoreiras Shopping Center, Loja 1113, Av. Engenheiro Duarte Pacheco, 1070 103, Lisbon, Portugal	Retailer of cosmetic products	Ordinary – 100%
Eetiline Kosmeetika OU	Narva mnt 5, Kesklinna district, Tallinn city, Harju county, 10117, Estonia	Retailer of cosmetic products	Ordinary - 50%
Lush Bulgaria O.D.D.	Druzhba, bl. 284 vh. 3, et. 7, ap. 4 Sofia, 1582, Bulgaria	Retailer of cosmetic products	Ordinary – 50%
SWIL AG	SWIL AG, Ammannsmatt 8, 6300 Zug, Switzerland	Holding company	Ordinary – 100%
Lush Fresh Handmade Cosmetics D.O.O.	22 Atanasija Pulje, Belgrade, 11080, Serbia	Dormant	Ordinary – 50%
LIWS Industria de Cosméticos Ltda	Rua José Ramos Guimarães, 279, São Paulo, Bom Jesus dos Perdões, 12955-000, Brazil	Manufacturer of cosmetic products	Ordinary – 99%
SWIL Brasil Comercio de Cosméticos e Produtos de Beleza Ltda	Alameda Campinas, 1063, São Paulo, São Paulo, 01404-001, Brazil	Retailer of cosmetic products	Ordinary – 99%
LCM (Lush Chile Manufacturing) SA	1387, av. Americo vespucio, Santiago, Chile	Dormant	Ordinary - 99%
Lush Peru SAC	Jr. Purus Mza. 85 Lote, Ucayali, Coronel Portillo, Yarinacocha, Peru	Manufacturer of raw materials	Ordinary – 90%
Lush Japan KK	4027-3 Nakatsu, Aikawamachi, Aikogun, Kanagawa-ken, Japan	Manufacturer and retailer of cosmetic products	Ordinary – 100%
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%
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 MENA Trading Co	Office 502, Sakura Plaza, Madinah Road, Al Salamah Dist, Jeddah 21567, P.O Box 70093, Saudi Arabia	Retailer of cosmetic products	Ordinary – 75%
Happy Days WLL	Shop 115, Block 428, Building 2102, Road 2825, Al Seef, Kingdom of Bahrain	Retailer of cosmetic products	Ordinary – 93.75%

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

### 26 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 Muscat LLC	NG26, Muscat City Centre Mall, Muscat, P.C. 11, Sultanate of Oman	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 (New Zealand) Limited	Unit A, 162, Foundry Road, Silverdale, 0932, New Zealand	Retailer of cosmetic products	Ordinary - 100%
Lush Swedru Ghana Limited	DS25/1 Dechesu, Agona, Swedru, Ghana	Manufacturer of raw materials	Ordinary – 80%
Mount Kenya Regenerative Oils Limited	ICEA Lion Centre, Riverside Park, Chiromo Road, P. O. Box 10643 - 00100 - G.P.O, NAIROBI	Manufacturer of raw materials	Ordinary – 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)

### 26 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 Republic	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 Cosméticos 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 Steinhäusen, 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%
Abeaute Sdn Bhd	568-9-22, 9 <sup>th</sup> Floor, Mutiara Office Suites, Kompleks Mutiara, 3 ½ Mile Jalan Ipoh, 51200 Kuala Lumpur, Malaysia	Retailer of cosmetic products	Ordinary - 35%
Lush IKE	Tsimiski 1120, GR-546 21 Thessaloniki, Greece	Retailer of cosmetic products	Ordinary - 35%

### 27 Post balance sheet events

On 2 July 2018, a dividend of US\$79,680,000 was declared by Lush US Inc and a dividend of CD\$5,500,000 was declared by Lush Handmade Cosmetics Limited. Balances, net of withholding tax, of £30,631,000 and £1,201,000 were received by Lush Ltd in cash on 2 July 2018 and 5 July 2018 respectively.

Subsequent to the year end, the Bank of Yokohama facility has been replaced with a new 3 year ¥1,000,000 committed facility expiring on 28 February 2022. Lush Cosmetics Limited issued a guarantee to Lush Japan Company Limited in respect of this loan agreement.

## Notes to the financial statements

### 28 General accounting policies

#### A helpful summary

This section details the accounting policies of the Group that relate to the financial statements as a whole and other statutory disclosures, as well as an explanation of how the results of the Group are consolidated. Details of specific accounting policies are included within the notes to the financial statements to which they relate.

#### *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 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.

Significant judgements and estimates made by management when applying accounting policies have been disclosed in this note in section (i).

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

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The net loss before dividends received for the Company for the year was £746,000 (2017: loss of £399,000). During the year the Company received three separate dividends equivalent to a total income of £3,900,000 (2017: £1,500,000) from Lush Ltd.

#### *Going concern*

We have continued to draw from our Barclays £35m revolving credit facility (expiring on 31 July 2019) throughout the year, despite often being in a net cash position; the multi-currency nature of the facility allows us to mitigate our foreign exchange exposure by drawing down in currencies appropriate to where the funding is needed. Our net debt position at 30 June 2018 was -£1.0m, despite having £23.9m drawn down on the Barclays facility and being fully drawn down on our two ¥1bn (total £13.7m) facilities with Bank of Yokohama and SMBC (expiring on 28 February 2019 and 31 May 2019 respectively). The Bank of Yokohama facility has been replaced with a new 3 year ¥1bn committed facility expiring on 28 February 2022. All other facilities are repayable on demand. On the 3 July 2018 our cash position was strengthened considerably by a £31.8m dividend receipt from our North America businesses.

We are currently reviewing our options with other banks before renewing or replacing the £35m facility, whilst we fully expect the SMBC facility in Japan to be renewed as it has been historically.

Given that some facilities are repayable on demand, the Directors have reviewed financial projections and cash flows to 30 June 2020 assuming there are no further available facilities to the Group, including stress testing various scenarios around trading. The sensitivities consider possible sales shortfalls and the subsequent impact on cash generation, the impact of interest rate rises, as well as Brexit considerations including additional customs duties and withholding tax that could be levied. Our cash flow projections benefit significantly from the closure of the loss-making Brazilian businesses and projected EBITDA profit in Japan for the year ended 30 June 2020 following significant pre-opening costs incurred on the Tokyo big store in 2019. In addition to cash generated from the Group's trading, we have also considered future dividend income from our joint venture operations in North America and from our Associates.

The Group currently has significant cash reserves following the receipt of substantial dividends from joint venture operations in North America and having generated considerable cash from trading over the Christmas period. Our sensitised projections show a continued net cash surplus throughout the period under review. This means that in the event that the current facilities which are repayable on demand are not replaced or renewed, they could be repaid at any point from cash reserves whilst still leaving sufficient resources for the Group to continue operations for the foreseeable future. Consequently, the financial statements continue to be prepared on a going concern basis.

## Notes to the financial statements (continued)

### 28 General accounting policies (continued)

#### c) Exemptions for qualifying entities under FRS 102

The Company is a qualifying entity for the purpose of FRS 102 and as such the following exemptions for the parent Company have been taken:

- No separate parent company Cash Flow statement has been included;
- Key management personnel compensation from the parent company has not been presented
- Certain financial instrument disclosures for the parent company have not been presented.

#### 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 2018.

#### 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.

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.

#### 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.

The Group's share of the profit or loss 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 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.

#### Employee Benefit Trust

On 16 November 2017, the Company agreed to issue 913 new ordinary £1 shares to 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 trust deed signed by the trustees of the EBT and the Company states that the trustees shall waive and otherwise forgo any dividend due or to become due at any time in the future in respect of any Lush Cosmetics Limited shares. The trustees also agree to abstain from voting any shares held by the EBT, unless directed by the directors of the Company.

For accounting purposes the Group is considered to have de facto control over the Trust. As such the assets and liabilities of the EBT have been consolidated as part of the results of the Group.

#### e) Foreign currency

##### Functional and presentation currency

The Group and Company functional and presentational currency is pound sterling.

##### 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.

## Notes to the financial statements (continued)

### 28 General accounting policies (continued)

#### *e) Foreign currency (continued)*

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.

#### **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'.

#### *f) Other income streams*

##### **Royalty income**

The Lush 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 based on a percentage of sales. The Group subsequently pay royalties to Cosmetic Warriors Limited, a related entity, for use of the Retail and Manufacturing Intellectual Property over which the Group have a licence. 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 in the profit and loss account at the date that the dividends are appropriately approved by the shareholders of the relevant entity.

#### *g) 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.

#### *h) 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.

#### *i) 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;

### **Critical judgements in applying the Group's accounting policies**

#### *i) Valuation of bitcoin investments (see note 9)*

Bitcoin are recognised as an intangible asset and carried at their fair value. Increases in fair value and decreases to the extent they reverse previous increases are recognised through other comprehensive income and accumulated in the revaluation reserve. Decreases in fair value and increases to the extent they reverse previous decreases are recognised through the profit and loss account. Realised gains or losses recognised at the point of selling bitcoin or using bitcoin to settle a liability are recycled through the profit and loss account through operating expenses.

#### *ii) Classification of joint ventures and associates (see note 11)*

When assessing the classification of the Group's investment in other entities, the Group have considered a number of factors to determine the degree of actual and inferred control exerted by the Group, and therefore the appropriate classification for each investment and the basis of consolidation. These factors include the percentage of shares held in the entity and the corresponding voting power these shares carry, the power to make financial and operating decisions through the board of directors, the power to appoint and/or remove directors and the degree of influence over the day to day operations of the entity.

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

### 28 General accounting policies *(continued)*

#### Key accounting estimates and assumptions

##### *iii) Key Money recognition (see note 9)*

Key money relates to certain premiums paid on acquisition of short leasehold property and reflects the right to lease a property on favourable terms. When determining the appropriate amortisation period to allocate to the key money, management have performed a review of the terms of the lease contracts and the legal position in each territory. Where there is a right to renew the contract at an insignificant cost, the lease will be amortised over a period longer than the lease term, otherwise the lease will be amortised over the agreed lease term. The Group have used their judgement to assess the relevant cost of the right to renew and have concluded that the amortisation period should be equal to the lease term, with the exception of key money held in France, which is amortised over a period of 30 years.

##### *iv) Impairment of intangible assets, tangible assets and Investments (see notes 9, 10 & 11)*

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.

##### *v) Stock valuation (see note 12)*

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

##### *vi) Recognition of deferred tax assets (see note 16)*

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

##### *vii) Provisions (see note 15)*

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 as it is not deemed to be significant.