

# **Cosmetic Warriors Limited**

**Annual report and financial statements**

**Registered number 04165681**

**30 June 2017**



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## Strategic Report

### For the year ended 30 June 2017

The directors present their Strategic Report for the Company for the year ended 30 June 2017.

#### Principal Activities

The Company creates, holds and defends the intellectual property rights for Lush Brand products and charges license and royalty fees for their use. The Company receives royalty income for the use of manufacturing and retail intellectual property, for which it grants Lush Ltd a licence. The Company also incurs costs relating to invention (including the salary costs of the inventors), research and development, Lush brand development and creative buying relating to the Lush brand.

#### Review of Business

	2017	2016	Movement
	£000	£000	%
Turnover	15,549	11,719	+32.7
Gross profit	8,329	6,323	+31.7
Profit before taxation	3,013	5,440	-44.6

Licence fees and royalty income in the year ended 30 June 2017 increased by 32.7% reflecting the continued increase global sales of the Lush brand through its network of shops and digital offerings.

Despite the increase in income, profit before taxation dropped by £2.4m to £3.0m. This is due to £3.3m additional spend in defending our intellectual property ("IP") rights and a £3.3m increase in staff costs.

Our year end net assets of £7.6m reflect a decrease of £0.1m from the prior year, being the net of our £2.4m total comprehensive income for the year and a dividend payment of £2.5m.

#### Key Performance Indicators (KPIs)

The Company uses several KPIs to monitor the performance of the business, the main indicators being turnover and profit before tax which are summarised in the table above.

During the year there were 161 products launched (excluding giftsets). To protect those products there were a total of 38 patent applications filed around the world, with a further 95 trademark applications and 112 design rights supporting both brand and product identity.

An unavoidable consequence of an active IP portfolio is the need to take action against those that infringe our rights and in the year there were 96 new infringement cases.

#### Strategy and Future outlook

The new financial year is expected to show further increases in our income streams, driven by growth in global Lush sales and the development of new products and services.

In support of the future development of all aspects of the Brand, Cosmetic Warriors purchased a 52,000 sq ft factory unit to be used as a centre for development and innovation. Initial plans include space for the full scale mock up of new store features, the development of a new range of colour cosmetics, 3D design technology, advancing the 'naked' product concept, and trialling the efficiency of new Manufacturing equipment and engineering initiatives before introducing into production. All of these initiatives will also help to reduce the pressure on the UK manufacturing facilities which currently incorporate an element of research and development work.

The Company will continue to defend the uniqueness of these products through an increasing number of patent, trademark and design right applications both in the UK and across the rest of the world. Despite our preference for agreed resolutions our commitment to vigorously defend the Lush name and IP rights and the noticeable increase in the number of significant IP infringement cases will most likely see an increase in litigation.

The sourcing of new supplies of ingredients to be used in the product formulations and the methods employed in growing and processing them continues to be a significant aspect of Cosmetic Warriors work. Joint ventures and the transfer of technology to secure sustainable supply remain a priority.

## Strategic Report (*continued*)

### Principal Risks and Uncertainties

The management of the business and execution of the Company's strategy are linked to the performance of the Lush brand and its network of group subsidiaries, associates, joint ventures and licensees. Management consider the following to be the main risks to the business.

*Economic climate* – As licence and royalty income is directly linked to the performance of the Lush Group (Lush Cosmetics Limited and its subsidiaries, associates and joint ventures) and its licensees, the performance of the Company is dependent on the retail markets that sell Lush products and their performance. The increased sales performance in the year has illustrated the uniqueness and innovation of the products. The uniqueness of these products will continue to be protected through an on-going programme of registering and renewal of patents and trademarks.

*Availability of natural materials* – Cosmetic Warriors Limited specialises in the development of natural based cosmetic products. As this category of products continues to grow as a percentage of the cosmetics industry, there are increasing pressures on the availability of these natural ingredients which could hold back sales growth. We also mitigate commodity price risk and supply risks through a flexible and responsive creative process whereby in extreme circumstances we are able to adjust product formulation. In order to ensure the long term supply of natural raw materials the Lush Group continues to invest in growing and processing its own materials through the funding of international projects and joint ventures.

*Legal challenges* – At present a significant portion of the costs incurred in the Company are related to the defence of the intellectual property. It is possible that in the future these costs will increase, as the range of products that have been protected increase. There is also the potential for legal costs on cases that reach court to become significant if a case becomes long-running and a negotiated settlement is not possible. However our Intellectual Property team continue to mitigate this risk through constant monitoring and review of the Company's IP activities, with the support of external legal advice where required.

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

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



**Mr S Constantine**  
Director

## Directors' report

The directors present their directors' report and the audited financial statements for the year ended 30 June 2017.

### Principal activities

The principal activities of the Company have been addressed in the Strategic Report on page 1.

### Results and dividends

The profit after tax for the financial year totalled £2,399,000 (2016: £4,185,000). The directors declared a final dividend payment on 27 September 2016, in respect of the financial year ended 30 June 2016. The dividend paid was £304.17 per share, a total of £2,500,000 (2016: £nil).

Subsequent to the year end the Company has proposed an interim dividend for the year ended 30 June 2018. The dividend of £60.83 per share, a total of £500,000, was proposed and paid on 23 February 2018.

### Future developments

As royalty income is directly linked to the sales of Lush products, turnover is expected to increase in the new financial year in line with the growth of the Lush Group. The future development of the Company has been addressed further within the Strategic Report on page 1.

### Directors and directors' interests

The directors who held office during the year and up to the date of signing the financial statements were:

Mr M Constantine  
Mrs M J Constantine  
Mr S Constantine  
Mrs H E Ambrosen  
Mr K Bygrave

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

### Political and charitable contributions

The Company made no political or charitable contributions during the year (2016: £nil).

### Employment policies and Corporate Social Responsibility

The Company has a policy of communicating openly to employees and provides information about the entity's performance on an ongoing basis. The Lush International Meetings which take place twice a year are great forums for clearly communicating our values, our buying stories, our innovation and our charitable giving stories. The February 'Summits' focus on our charitable giving and allow some of the groups we support to share their stories and experiences with us and with each other. The September 'Showcases' are hugely exciting events that focus on new product launches and innovation. Both also give space for inspirational speakers and provide lots of great learning opportunities for our global teams.

We now have a maternity policy that pays 6 months' full pay and also provides childcare funding to enable more women to return to work after having children. New fathers within our workforce receive full pay for 4 weeks paternity leave. In both cases our policies extend to cover those taking shared parental leave and also those who adopt.

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

## **Directors' report** *(continued)*

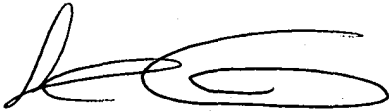
### **Disclosure of information to auditors**

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

### **Change of external auditors**

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

The directors' report was approved by the Board of Directors on 12 March 2018 and signed on its behalf by:



**Mr S Constantine**  
Director

29 High Street  
Poole  
Dorset  
BH15 1AB

## **Statement of directors' responsibilities in respect of the financial statements**

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

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

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

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## ***Independent auditors' report to the members of Cosmetic Warriors Limited***

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Cosmetic Warriors Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 30 June 2017; the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

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

#### **Independence**

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

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#### **Conclusions relating to going concern**

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

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

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

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#### **Reporting on other information**

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

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

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



## ***Independent auditors' report to the members of Cosmetic Warriors Limited (continued)***

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

### ***Strategic Report and Directors' Report***

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

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

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

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### ***Auditors' responsibilities for the audit of the financial statements***

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

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

#### ***Use of this report***

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

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

*Rosemary Shapland*

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

**Statement of comprehensive income**  
*for the year ended 30 June 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Turnover</b>		<b>15,549</b>	<b>11,719</b>
Cost of sales		(7,220)	(5,396)
<b>Gross profit</b>		<b>8,329</b>	<b>6,323</b>
Operating expenses		(5,317)	(1,765)
<b>Operating profit</b>	<b>3</b>	<b>3,012</b>	<b>4,558</b>
Other income		1	882
<b>Profit before taxation</b>		<b>3,013</b>	<b>5,440</b>
Tax on profit	<b>7</b>	(614)	(1,255)
<b>Profit and total comprehensive income for the financial year</b>		<b>2,399</b>	<b>4,185</b>

All results relate to continuing activities.

A statement of changes in equity is given on page 10.

## Balance sheet

As at 30 June 2017

	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Intangible assets	9	16	1
Tangible assets	10	188	90
		<u>204</u>	<u>91</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	11	2,548	1,722
Cash at bank and in hand		8,025	7,227
		<u>10,573</u>	<u>8,949</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(3,153)</u>	<u>(1,332)</u>
<b>Net current assets</b>		<u>7,420</u>	<u>7,617</u>
<b>Provisions for liabilities</b>	13	<u>(17)</u>	
<b>Net assets</b>		<u>7,607</u>	<u>7,708</u>
<b>Capital and reserves</b>			
Called up share capital	15	8	8
Share premium account		842	842
Capital redemption reserve		3	3
Retained profit		6,754	6,855
<b>Total equity</b>		<u>7,607</u>	<u>7,708</u>

The notes on pages 12 to 24 are an integral part of these Financial Statements.

These financial statements on pages 8 to 24 were approved by the Board of Directors on 12 March 2018 and signed on its behalf by:



Mr S Constantine  
Director

Cosmetic Warriors Limited  
Registered Number - 04165681

**Statement of changes in equity**  
*for the year ended 30 June 2017*

	Notes	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Retained profit £000	Total equity £000
At 1 July 2015	15	8	842	3	2,670	3,523
Profit and total comprehensive income for the year		-	-	-	4,185	4,185
At 30 June 2016		8	842	3	6,855	7,708
Profit and total comprehensive income for the year		-	-	-	2,399	2,399
Dividends paid		-	-	-	(2,500)	(2,500)
At 30 June 2017		8	842	3	6,754	7,607

**Other reserves**

**Capital redemption reserve**

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

**Statement of cash flows**  
*for the year ended 30 June 2017*

	<i>Note</i>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Net cash paid from operating activities</b>	<b>18</b>	<b>4,050</b>	<b>8,085</b>
Taxation paid		(583)	(864)
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		<b>3,467</b>	<b>7,221</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	9	(20)	(1)
Purchase of tangible assets	10	(149)	(74)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(169)</b>	<b>(75)</b>
<b>Cash flow from financing activities</b>			
Dividends paid	8	(2,500)	
		<hr/>	
<b>Net cash used in financing activities</b>		<b>(2,500)</b>	<b>-</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>798</b>	<b>7,146</b>
		<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year		7,227	81
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>		<b>8,025</b>	<b>7,227</b>
		<hr/>	<hr/>

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

### **1 Summary of significant accounting policies**

#### **General information**

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **a) Statement of compliance**

The financial statements of Cosmetic Warriors Limited ("the Company") have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ("FRS 102"), The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

#### **b) Basis of preparation**

The financial statements have been prepared on a going concern basis, under the historical cost accounting rules.

Management do not consider that any critical accounting estimates are required in the preparation of these financial statements.

#### **c) Going concern**

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

#### **d) Foreign currency**

##### ***Functional and presentation currency***

The Company's functional and presentation currency is pound sterling and is rounded to thousands.

##### ***Transactions and balances***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the Statement of comprehensive income within administrative expenses. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction.

#### **e) Revenue recognition**

##### ***Royalty income***

The Company receives royalty income for the use of manufacturing and retail intellectual property, for which it grants Lush Ltd an exclusive licence to exploit the brand. Royalty income is recognised on an accruals basis in accordance with the royalty agreement, and is based on sales accruing under the Lush brand. The royalties are invoiced on a quarterly basis and are based on a percentage of sales.

##### ***Other income***

Other income in the Statement of comprehensive income relates to net proceeds received during the year from legal cases arising from the protection of the intellectual property and Lush brand. Income has been recognised in the Statement of comprehensive income on receipt of settlement.

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

### 1 Summary of significant accounting policies *(continued)*

#### **f) Employee benefits**

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

##### ***Short term benefits***

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

##### ***Defined contribution pension plans***

The Company is recharged the contributions payable to the defined contribution pension scheme that is operated by Lush Ltd, in respect of those employees who provide services for Cosmetic Warriors Limited. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

#### **g) Taxation.**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit or loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

##### ***Current tax***

The current tax charge is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws in the UK relevant to the financial year.

##### ***Deferred tax***

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

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

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

#### **h) Intangible assets**

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

- Computer software	3 years
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The assets are reviewed for impairment when there are indicators that the carrying value of the asset may not be recoverable, such as technological advancement.

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

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

### 1 Summary of significant accounting policies *(continued)*

#### i) Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated, using the straight line method, to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- Fixtures, fittings and equipment	5 years
- Computer equipment	3 years

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

#### *Subsequent additions*

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

Repairs, maintenance and inspection costs are expensed as incurred.

#### *Derecognition*

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

#### j) Leased assets

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

#### *Operating leased assets*

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

#### k) Cash at bank and in hand

Cash comprises cash in hand, deposits held at call with banks and short-term bank deposits with a notice period of less than three months. Bank overdrafts, if any, are shown within borrowings in current liabilities.

#### l) Provisions and contingencies

##### *Provisions*

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

##### *Contingencies*

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

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.



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

### 1 Summary of significant accounting policies *(continued)*

#### m) Financial instruments

The Company has adopted Section 11 of FRS 102 in respect of financial instruments.

##### *Financial assets*

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

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

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

##### *Financial liabilities*

Basic financial liabilities, including trade and other creditors and amounts owed to related parties are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost using the effective interest method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

#### n) Dividends payable to shareholders

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately approved by the shareholders and are no longer at the discretion of the Company. These amounts are recognised in the statement of changes in equity. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### o) Related party transactions

The Company discloses transactions with related parties. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

#### p) Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management do not consider there to be any 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.

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

### 2 Segmental analysis

All of the Company's turnover, results and net assets are attributable to the Company's operations based in the United Kingdom.

The directors consider that there is only one class of business. The turnover and operating profit are attributable to the management of the intellectual property rights for the Lush Cosmetics products.

### 3 Operating profit

Operating profit is stated after charging:	2017	2016
	£000	£000
Depreciation of tangible assets:		
Owned	48	27
Amortisation of intangible assets	5	-
Loss on disposal of tangible assets	3	1
Operating lease rentals – Other	61	43
Foreign exchange losses	20	13
	<u>137</u>	<u>84</u>

Auditors' remuneration:	2017	2016
	£000	£000
Audit of these financial statements	10	10
	<u>10</u>	<u>10</u>

### 4 Remuneration of directors

	2017	2016
	£000	£000
Directors' emoluments	3,030	767
	<u>3,030</u>	<u>767</u>

The directors received £3,030,000 (2016: £767,000) for their services to the Company, which included £2,000 (2016: £1,000) paid on their behalf to a defined contribution pension scheme.

The aggregate emoluments received by the Company's highest paid director during the year were £651,000 (2016: £175,000), which included £1,000 (2016: nil) paid on their behalf to a defined contribution pension scheme. No contributions have been made on behalf of any directors to money purchase schemes in either years.

## Notes to the financial statements (continued)

### 5 Staff numbers and costs

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

	Number of employees	
	2017	2016 *Restated
Administration	43	49
	<u>43</u>	<u>49</u>

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

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	6,160	3,253
Social security costs	808	402
Other pension costs	27	29
	<u>6,995</u>	<u>3,684</u>

### 6 Key management compensation

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

	2017 £000	2016 £000
Salaries and other short-term benefits	3,568	941
Post-employment benefits	3	1
	<u>3,571</u>	<u>942</u>

## Notes to the financial statements (continued)

### 7 Tax on profit

Analysis of charge in year	2017 £000	2016 £000
<b>Current Tax</b>		
<i>UK current tax</i>		
UK current tax on profit for the year	621	1,146
Adjustments in respect of prior periods	(26)	109
Total current tax	595	1,255
<b>Deferred tax</b>		
Current year movement in timing differences	13	2
Adjustments in respect of prior periods	6	(1)
Total deferred tax	19	1
Tax on profit	614	1,255

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

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

	2017 £000	2016 £000
Profit before taxation	3,013	5,440
Profit multiplied by standard rate of UK corporation tax of 19.75% (2016: 20%)	595	1,088
<i>Effects of:</i>		
Expenses not deductible for tax purposes	39	59
Adjustments in respect of prior periods	(20)	108
Total tax on profit	614	1,255

Finance (No. 2) Act 2015 was substantively enacted on 26 October 2015 and reduced the main rate of corporation tax in the UK to 19% from 1 April 2017 and to 18% from 1 April 2020. Finance Act 2016 was substantively enacted on 6 September 2016 and further reduced the main rate of corporation tax in the UK to 17% with effect from 1 April 2020.

Deferred taxes at the balance sheet date have been measured using the substantively enacted tax rates at which they are expected to reverse.

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

### 8 Dividends

The directors declared a dividend payment on 27 September 2016. The dividend paid was £304.17 per share, a total of £2,500,000 (2016: *£nil*)

Subsequent to the year end the Company has proposed an interim dividend for the year ended 30 June 2018. The dividend of £60.83 per share, a total of £500,000, was proposed and paid on 23 February 2018.

### 9 Intangible assets

	Computer software costs £000
<i>Cost</i>	
At 1 July 2016	1
Additions	20
	<hr/>
At 30 June 2017	21
	<hr/>
<i>Accumulated amortisation</i>	
At 1 July 2016	-
Charged in year	5
	<hr/>
At 30 June 2017	5
	<hr/>
<i>Net book value</i>	
At 30 June 2017	16
	<hr/>
At 30 June 2016	1
	<hr/>

## Notes to the financial statements (continued)

### 10 Tangible assets

	Fixtures, fittings and equipment £000	Computer equipment £000	Total £000
<i>Cost</i>			
At 1 July 2016	95	38	133
Additions	122	27	149
Disposals	(24)	(7)	(31)
<b>At 30 June 2017</b>	<b>193</b>	<b>58</b>	<b>251</b>
<i>Accumulated depreciation</i>			
At 1 July 2016	33	10	43
Charged in year	31	17	48
Disposals	(24)	(4)	(28)
<b>At 30 June 2017</b>	<b>40</b>	<b>23</b>	<b>63</b>
<i>Net book value</i>			
<b>At 30 June 2017</b>	<b>153</b>	<b>35</b>	<b>188</b>
At 30 June 2016	62	28	90

### 11 Debtors: amounts falling due within one year

	2017 £000	2016 £000
Amounts owed by related parties	2,409	1,581
Other debtors	90	96
Deferred tax asset (see note 13)	-	2
Prepayments and accrued income	49	43
	<b>2,548</b>	<b>1,722</b>

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

## Notes to the financial statements (continued)

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

	2017 £000	2016 £000
Trade creditors	357	454
Amounts owed to related parties	90	31
Corporation tax liability	539	527
Other taxation and social security	2	-
Other creditors	77	185
Accruals and deferred income	1,789	3
VAT creditor	299	132
	<u>3,153</u>	<u>1,332</u>

Amounts owed to other related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 13 Provisions for liabilities

#### Deferred Tax

The movement in the deferred tax asset/(liability) is as follows:

	Deferred taxation asset/(liability) £000
At 1 July 2016	2
Deferred tax charged to the Statement of comprehensive income for the year (see note 7)	(13)
Adjustment in respect of prior years	(6)
	<u>(17)</u>
At 30 June 2017	<u>(17)</u>

The elements of the deferred taxation are as follows:

	2017 £000	2016 £000
Differences between accumulated depreciation and capital allowances	(17)	2
	<u>(17)</u>	<u>2</u>

The amount of the net reversal of deferred tax expected to occur next year is £6,000 (2016: £8,000), relating to the reversal of existing timing differences on tangible fixed assets and other timing differences.

## Notes to the financial statements (continued)

### 14 Financial Instruments

The Company has the following financial instruments

	2017		2016	
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets - debt instruments measured at amortised cost				
- Amounts owed by related parties (see note 11)	2,409		1,581	
- Other debtors (see note 11)	90		83	
	<u>2,499</u>		<u>1,664</u>	
	2017		2016	
	£000	£000	£000	£000
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost				
- Trade creditors (see note 12)	357		454	
- Amounts owed to related parties (see note 12)	90		31	
- Other creditors (see note 12)	77		185	
	<u>524</u>		<u>670</u>	

### 15 Called up share capital

	2017	2016
	£000	£000
<i>Allotted, called up and fully paid</i>		
8,219 (2016: 8,219) Ordinary shares of £1 each	8	8

### 16 Commitments and contingent liabilities

a) The Company had capital commitments of £4,600,000 at 30 June 2017 (2016: £nil) in relation to the factory unit to be used by the company as a centre for development and innovation.

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

	Land and Buildings	
	2017	2016
	£000	£000
Payments due:		
Within one year	-	27
In the second to fifth years inclusive	-	11
Over five years	-	9
	<u>-</u>	<u>47</u>



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

### 17 Pension scheme

The Company is recharged the contributions payable to the defined contribution pension scheme that is operated by Lush Ltd, in respect of those employees who provide services for Cosmetic Warriors Limited. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £27,000 (2016: £29,000). There were £1,000 of outstanding contributions at the end of the financial year (2016: £nil).

### 18 Net cash flow from operating activities

	2017 £000	2016 £000
<b>Reconciliation of profit for the financial year to net cash flow from operating activities</b>		
Profit for the year	2,399	4,185
Tax on profit	614	1,255
Net interest expense	-	-
<b>Profit on before taxation</b>	<b>3,013</b>	<b>5,440</b>
Depreciation and impairment charges	53	27
Loss on disposal of tangible assets	3	1
(Increase) / decrease in debtors	(826)	2,411
Increase in creditors	1,807	206
<b>Net cash flow from operating activities</b>	<b>4,050</b>	<b>8,085</b>

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

### 19 Related party disclosures

Lush Ltd, Lush Manufacturing Limited, Lush Retail Limited, Lush GmbH, ECC Records Limited, Lush Cosmetics Limited and Lush Russia LLC have transactions with the Company during the year and have common shareholders, they are therefore deemed to be related parties.

	Sales	Sales	Other recharges	Other recharges	Balance Dr/(Cr)	Balance Dr/(Cr)
	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000
Lush Ltd	15,000	11,719	(9,306)	228	2,119	1,340
Lush Manufacturing Limited	-	-	(207)	(169)	(67)	(7)
Lush Retail Limited	-	-	(76)	(16)	(12)	(21)
Lush GmbH	-	-	(57)	(33)	(4)	(3)
ECC Records Limited	-	-	299	128	1	153
Lush Cosmetics Limited	-	-	135	-	176	-
Lush Russia LLC	549	-	-	-	105	-

Cosmetic Warriors Limited receives royalties from Lush Ltd and Lush Russia LLC for the use of Intellectual Property, for which Cosmetic Warriors Limited has granted exclusive licence to exploit the Lush Brand, these transactions are considered to be sales for the purpose of the table above.

Other recharges with ECC Records Limited are in respect of legal costs incurred by Cosmetic Warriors Limited on behalf of ECC Records Limited. Recharges with Lush Cosmetics Limited are in respect of common legal expenses split between Cosmetic Warriors Limited and Lush Cosmetics Limited. Recharges to the other entities listed above are in respect of payroll costs borne on behalf of Cosmetic Warriors Limited, and research and development stock wastage incurred by Lush Manufacturing Limited on behalf of Cosmetic Warriors Limited.

Within the transactions set out above are rental recharges from Lush Ltd in the year amounting to £61,000 (2016: £43,000). These amounts include rent paid for properties jointly owned by Mr M Constantine and Mrs M Constantine amounting to £11,000 (2016: £8,000).

In addition to the amounts disclosed in the table above, the Company has a short-term debtor account with the directors. At 30 June 2017, the amounts due from the directors totalled £21,000 (2016: £88,000). The balance is considered to be repayable on demand and is interest free.

### 20 Ultimate controlling party

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