Cosmetic Warriors Limited

Annual report and financial statements
Registered number 04165681
30 June 2018

Contents

Strategic report
For the year ended 30 June 2018

The directors present their Strategic Report for the Company for the year ended 30 June 2018.

Principal Activities

The Company creates, holds and defends the intellectual property rights for Lush Brand products. The Company receives a licence fee and royalty income for the use of 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

		Restated*	
	2018	2017	**Movement**
	£000	£000	**%**
Turnover	**18,600**	15,549	**19.6**
Gross profit	**9,285**	3,434	**170.4**
Profit before taxation	**9,160**	3,013	**204.0**

**Gross profit has been restated to incorporate costs which were previously recognised within operating expenses. Management have made this change to better reflect the roles of certain employees within the business.*

Licence fees and royalty income for the year ended 30 June 2018 increased by 19.6% to £18.6m.

Profit before taxation increased by £6.1m to £9.2m. This is largely the result of a £3.1m increase in revenue, a £2.4m reduction in staff costs and £1m less spend on defending our intellectual property ("IP"). The movement in staff costs is largely driven by bonuses which are impacted by the timing and success of new product innovations. We also recognised other income in the form of IP settlements of £0.3m *(2017: £nil)* and Research & Development Expenditure Credits of £0.6m *(2017: £nil)* in the year.

Our year end net assets of £14.5m reflect an increase of £6.9m from the prior year, being the net of our £7.4m total comprehensive income for the year and a dividend payment of £0.5m.

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 282 newly developed (excluding giftsets) or reformulated products which have been sold in Lush shops or at Lush events. To protect those products there were a total of 54 patent applications filed around the world during the year, with 15 patents granted in respect of applications filed in previous years. A further 205 trademark and 47 design rights applications supporting both brand and product identity were made in the year.

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 166 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.

As part of the continuation of product and process development, the Company has commenced fitting out and utilising the 52,000 sq ft development and innovation facility purchased in the financial year. 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. The initiatives around manufacturing processes are already helping to ease pressure on all Lush manufacturing facilities. In addition, the scaling up of new product launches and associated research and development is now being performed by Cosmetic Warriors, in Cosmetic Warriors premises, before entering production in Lush's manufacturing facilities. Historically, the process of scaling new products had been performed within Lush Manufacturing Limited facilities with the relevant costs recharged to Cosmetic Warriors; this is again helping to ease pressures on Lush's manufacturing facilities.

Strategic report *(continued)*

There are further plans to utilise the remaining space, including progressing 3D design technologies and advancing the 'naked' product concept.

The Company also intends to extend its activities to include the research and development of ethical digital technologies that can be licensed to the Lush Cosmetics Group and third parties. Management believe the use of digital technology is key to futureproofing the business, generating efficiencies and improving experiences for staff and customers. Early developments include a prototype of the Lush Lens which, through the integration of artificial intelligence, allows customers and staff to use their smartphone or tablet cameras to recognise 'naked' products, generating a 'digital label' on the handset that shows the relevant product information, which in turn replaces one of the key needs for packaging. The Lush Lens was first trialled with great success in the Lush 'naked' shop in Milan during the year. It is hoped this technology can be integrated into the core ecommerce app and till systems in the near future. In line with the product developments, the digital technologies generated in the Company will be protected by design right, trademark and intellectual property registrations where possible.

The Company will continue to defend the uniqueness of all products through 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 in the last few years will most likely see an increase in litigation.

In line with the work being performed by related party Lush Limited in respect of the sourcing of new supplies of ingredients and the methods employed in growing and processing them, Cosmetic Warriors continue to assess product formulations.

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. The Company works with the Lush Group which continues to invest in growing and processing its own materials through the funding of international projects and joint ventures in order to ensure the long term supply of natural raw materials.

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 08 March 2019 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 2018.

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 £7,416,000 *(2017: £2,399,000)*. No dividends were proposed or paid in respect of the year ended 30 June 2017. 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.

An interim dividend for the year ended 30 June 2018 of £60.83 per share, a total of £500,000, was proposed and paid on 23 February 2018.

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 Cosmetic Warriors Employee Benefit Trust which has waived its right to receive the dividend in line with the trust deed.

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 (2017: £nil).

Employment policies and Corporate Social Responsibility

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 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.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons set out on page 25.

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 auditor is unaware; and each director has taken all the steps that himself/herself ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

During the year KPMG LLP were appointed as 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.

The directors' report was approved by the Board of Directors on 8th March 2019 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 Strategic Report, the Directors' Report and the Financial Statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Cosmetic Warriors Limited

Opinion

We have audited the financial statements of Cosmetic Warriors Limited ("the company") for the year ended 30 June 2018 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies disclosed within.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. 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, 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 company'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 company'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 company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We 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 company's business model, including the impact of Brexit, and analysed how those risks might affect 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 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 Cosmetic Warriors Limited *(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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

J Breakell

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

15/3/19

Statement of comprehensive income
for the year ended 30 June 2018

	Note	2018 £000	Restated* 2017 £000
Turnover	*1*	**18,600**	15,549
Cost of sales		**(9,315)**	(12,115)
Gross profit		**9,285**	3,434
Operating expenses		**(951)**	(422)
Operating profit	*3*	**8,334**	3,012
Other income	*2*	**826**	1
Profit before taxation		**9,160**	3,013
Tax on profit	*7*	**(1,744)**	(614)
Profit and total comprehensive income for the financial year		**7,416**	2,399

*Gross profit has been restated to incorporate costs which were previously recognised within operating expenses. Management have made this change to better reflect the roles of certain employees within the business.

All results relate to continuing activities.

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

Balance sheet
at 30 June 2018

	Note	2018	2018	2017	2017
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*9*		**16**		16
Tangible assets	*10*		**6,132**		188
Investments	*11*		**-**		-
			6,148		204
Current assets					
Debtors: amounts falling due within one year	*12*	**5,800**		2,548	
Cash at bank and in hand		**5,731**		8,025	
		11,531		10,573	
Creditors: amounts falling due within one year	*13*	**(3,125)**		(3,153)	
Net current assets			**8,406**		7,420
Provisions for liabilities	*14*		**(30)**		(17)
Net assets			**14,524**		7,607
Capital and reserves					
Called up share capital	*15*		**8**		8
Treasury share reserve	*15*		**1**		-
Share premium account			**842**		842
Capital redemption reserve			**3**		3
Retained earnings			**13,670**		6,754
Total equity			**14,524**		7,607

These financial statements on pages 8 to 25 were approved by the Board of Directors on 8th March 2019 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 2018

	Note	Called up share capital £000	Treasury share reserve £000	Share premium account £000	Capital redemption reserve £000	Retained profit £000	Total equity £000
As at 1 July 2016		8	-	842	3	6,855	**7,708**
Profit for the financial year		-	-	-	-	2,399	**2,399**
Dividends paid		-	-	-	-	(2,500)	**(2,500)**
As at 30 June 2017		**8**	**-**	**842**	**3**	**6,754**	**7,607**
Profit for the financial year		-	-	-	-	7,416	**7,416**
Shares issued	*15*	-	1	-	-	-	**1**
Dividends paid	*8*	-	-	-	-	(500)	**(500)**
As at 30 June 2018		**8**	**1**	**842**	**3**	**13,670**	**14,524**

Statement of cash flows
for the year ended 30 June 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Net cash from operating activities	*18*	**4,654**		4,050	
Taxation paid		**(576)**		(583)	
Settlement receipts	*2*	**268**		-	
Net cash generated from operating activities			**4,346**		3,467
Investing activities					
Purchase of intangible fixed assets	*9*	**(10)**		(20)	
Purchase of tangible fixed assets	*10*	**(6,151)**		(149)	
Proceeds on disposal of intangible and tangible fixed assets		**21**		-	
Net cash used in investing activities			**(6,140)**		(169)
Financing activities					
Dividends paid to the owners of the Company	*8*	**(500)**		(2,500)	
Net cash generated from financing activities			**(500)**		(2,500)
Net (decrease)/increase in cash and cash equivalents			**(2,294)**		798
Cash and cash equivalents at the beginning of the year			**8,025**		7,227
Cash and cash equivalents at the end of the year			**5,731**		8,025

Notes to the financial statements

1 Turnover

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.

Accounting Policies
Royalty income
The Company grants Lush Ltd. an exclusive licence to exploit the Lush brand. In return the Company receives an annual licence fee, plus royalty income for the use of manufacturing and retail intellectual property. Income is recognised on an accruals basis in accordance with the royalty agreement, and is driven by the turnover accruing under the Lush brand.

2 Other income

	2018	2017
	£000	£000
Research and development expenditure credits	**558**	1
Settlement receipts	**268**	-
Total debtors	**826**	1

Accounting Policies
Other income
Other income in the Statement of comprehensive income relates to research and development expenditure credits, which are recognised when the claims are filed, and receipts from legal cases arising from the protection of the intellectual property and Lush brand, which are recognised upon receipt of settlement.

Notes to the financial statements *(continued)*

3 Operating profit

The operating profit is stated after charging/(crediting):	**2018** **£000**	2017 £000
Staff costs *(see note 5)*	**4,540**	6,995
IP protection and renewals costs	**2,761**	3,884
Other legal and consultancy costs	**386**	221
Design and branding costs	**432**	294
Depreciation of tangible assets	**186**	53
Amortisation of intangible assets	**10**	-

Auditor's remuneration:	**2018** **£000**	2017 £000
Audit of these financial statements	**11**	10

There were no other services provided to the Company by the Company's auditors.

<u>Accounting Policies</u>

Cost allocation

Cost of sales represents staff costs related to design, product development and IP protection, as well as other design and branding costs, IP protection and renewal costs.

4 Remuneration of directors

	2018 **£000**	2017 £000
Directors' emoluments	**939**	3,030

The directors received £939,000 *(2017: £3,030,000)* for their services to the Company, which included £2,000 *(2017: £2,000)* 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 £207,000 *(2017: £651,000)*, which included £1,000 *(2017: £1,000)* 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	
	2018	2017
Administration	**59**	43
	59	43

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	**4,027**	6,160
Social security costs	**520**	808
Pension costs	**41**	27
	4,588	6,995

Accounting Policies

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

Short term benefits

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

Defined contribution pension plans

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

Bonus arrangements

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

6 Key management compensation

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

		Restated
	2018	2017
	£000	£000
Salaries and other short-term benefits	**1,417**	4,336
Post-employment benefits	**4**	3
	1,421	4,339

Notes to the financial statements *(continued)*

7 Tax on profit

Analysis of charge in year;	**2018**	2017
	£000	£000
Current Tax		
UK current tax		
UK current tax on profit for the year	**1,701**	621
Adjustments in respect of prior periods	**30**	(26)
Total current tax	**1,731**	595
Deferred tax		
Current year movement in timing differences	**15**	13
Adjustments in respect of prior periods	**1**	6
Effect of tax rate change on closing balance	**(3)**	-
Total deferred tax	**13**	19
Tax on profit	**1,744**	614

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	2017
	£000	£000
Total tax reconciliation		
Profit before taxation	**9,160**	3,013
Total tax at 19% *(2017: 19.75%)*	**1,740**	595
Effects of:		
Expenses not deductible for tax purposes	**82**	39
Non-taxable income - RDEC taxed in earlier period	**(106)**	-
Effect of tax rate change on closing balances	**(3)**	-
Adjustments in respect of prior periods	**31**	(20)
Total tax charge (see above)	**1,744**	614

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.

Notes to the financial statements *(continued)*

7 Tax on profit *(continued)*

Accounting Policies

Tax on the profit or loss for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income, or directly in equity, respectively.

Current tax

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

Deferred tax

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax returns in periods that are different from those in which they are recognised in the financial statements, and are recognised only to the extent that it is probable that future taxable profits will be available for utilisation. Deferred tax assets are reduced 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.

8 Dividends

An interim dividend for the year ended 30 June 2018 of £60.83 per share, a total of £500,000, was proposed and paid on 23 February 2018. 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 Cosmetic Warriors Employee Benefit Trust which has waived its right to receive the dividend in line with the trust deed.

9 Intangible assets

	Software costs £000
Cost	
At 1 July 2017	21
Additions	10
At 30 June 2018	**31**
Accumulated amortisation and impairment	
At 1 July 2017	5
Charged in year	10
At 30 June 2018	**15**
Net book value	
At 30 June 2018	**16**
At 30 June 2017	16

Notes to the financial statements *(continued)*

9 Intangible assets *(continued)*

Accounting Policies

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

Amortisation rate

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

Impairment

The assets are reviewed for impairment when there are indicators that the carrying value of the asset may not be recoverable, such as when there have been significant technological advancement. See Note 10 for the detailed accounting policy adopted for impairment reviews.

Development costs

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 Company will obtain future economic benefits from the asset.
- The project is technically feasible and the Company 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.

Software

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

10 Tangible assets

	Land, leasehold and freehold buildings	Fixtures, fittings and equipment	Computer equipment	Total
	£000	£000	£000	£000
Cost				
At 1 July 2017	-	193	58	251
Additions	4,916	1,209	26	6,151
Disposals	-	(18)	(6)	(24)
At 30 June 2018	**4,916**	**1,384**	**78**	**6,378**
Accumulated depreciation				
At 1 July 2017	-	40	23	63
Provided in year	55	109	22	186
On disposals	-	-	(3)	(3)
At 30 June 2018	**55**	**149**	**42**	**246**
Net book value				
At 30 June 2018	**4,861**	**1,235**	**36**	**6,132**
At 30 June 2017	-	153	35	188

Notes to the financial statements *(continued)*

10 Tangible assets *(continued)*

Accounting Policies

Tangible assets are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation rate

Depreciation is calculated, using the straight line method, to write off the asset cost over its estimated useful life as follows;
- Freehold buildings => 50 years
- 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 tangible and intangible (see note 9) assets are reviewed to determine whether there is any indication of impairment. Depending on the assets role in generating cash the review is conducted on the asset in isolation or as part of a group of assets (cash generating unit - CGU). If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the greater of fair value less costs to sell and value in use. The value in use is the sum of its expected future cash flows. Where discounting is expected to be significant a pre-tax discount rate is applied to calculate the present value of the cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account. If the initial reason for impairment no longer exists, the impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Subsequent additions

Subsequent costs are included within tangible fixed assets when recognition criteria are met. Where assets are considered replacements for existing assets, the depreciation of the replaced component is accelerated to write down to a nil net book value. When the expenditure is considered to be enhancement of an existing asset, the cost is added to the carrying value of the original asset and depreciated over the newly assessed useful economic life.

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.

11 Investments

During the year, the company purchased shares totalling £100 in Tech Warriors Limited.

At 30 June 2018 the Company directly holds the following investments in subsidiary company:

Subsidiary undertakings	**Registered Office**	**Principal activity**	**Class and percentage of shares held**
Tech Warriors Limited	29 The High Street, Poole, Dorset, BH15 1AB, England	Dormant	Ordinary - 100%

Notes to the financial statements *(continued)*

12 Debtors

	2018	2017
	£000	£000
Amounts falling due within one year:		
Amounts owed by related parties	**5,513**	2,409
Other debtors	**99**	90
Prepayments and accrued income	**188**	49
Total debtors	**5,800**	2,548

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

Accounting Policies

Financial assets

Basic financial assets, including trade and other debtors, 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 impairment. 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.

13 Creditors

	2018	2017
	£000	£000
Amounts falling due within one year:		
Trade creditors	**509**	357
Amounts owed to related parties	**270**	90
Corporation tax	**1,135**	539
VAT creditor	**694**	299
Other taxation and social security	**113**	2
Other creditors	**24**	10
Accruals and deferred income	**380**	1,856
	3,125	3,153

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

Accounting Policies

Financial liabilities

Trade and other creditors, amounts owed to associates and related parties, bank loans and overdrafts are initially recognised at transaction price.

Notes to the financial statements *(continued)*

14 Provisions for liabilities

Deferred Tax

	Deferred taxation liability £000
At 1 July 2017	17
(Credit) / charge to the profit and loss for the year	15
Adjustment in respect of prior years	1
Effect of tax rate changes on closing balance	(3)
At 30 June 2018	**30**

The elements of the deferred taxation are as follows:	**2018 £000**	2017 £000
Differences between accumulated depreciation and capital allowances	**32**	17
Other timing differences - employer pension contributions	**(2)**	-
	30	17

The amount of the net reversal of deferred tax expected to occur next year is £14,000 *(2017: £6,000)* relating to the reversal of existing timing differences on tangible fixed assets and other timing differences.

Accounting Policies

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Deferred tax liabilities

Refer to Note 7 for the accounting policy used for deferred tax liabilities.

Notes to the financial statements *(continued)*

15 Called up share capital

Company

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

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

On 19 June 2018 the directors of the Company agreed to issue 913 new ordinary £1 shares in the Company, increasing the called up share capital to 9,132 ordinary £1 shares. These shares have subsequently been purchased for a consideration of £913 by The Cosmetic Warriors Employee Benefit Trust ("EBT"), a discretionary trust set up to acquire and hold Company shares on behalf of the employees of Cosmetic Warriors Limited 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 Cosmetic Warriors 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.

Notes to the financial statements *(continued)*

16 Commitments and contingent liabilities

a) The Company had capital commitments of £nil as at 30 June 2018 *(£4,600,000 as at 30 June 2017).*

b) The Company has no future lease payments under non-cancellable operating leases. Cosmetic Warriors bear the cost of various leases relating to printing equipment and buildings they occupy. However, the legal title of these leases belongs to related parties within the Lush Cosmetics Group and therefore Cosmetic Warriors have no legal commitment under these leases.

Accounting Policies

The nature of 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.

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.

17 Pension scheme

For part of the year, the Company was 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. For the remainder of the year Cosmetic Warriors made contributions to its own defined contribution pension scheme in respect of the same employees. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £41,000 (2017: £27,000). There were £14,000 of outstanding employer contributions and employee deductions payable by the Company to the scheme at the end of the financial year *(2017: £1,000).*

Accounting Policies

Refer to Note 5 for the accounting policy used for pension schemes and similar arrangements.

Notes to the financial statements *(continued)*

18 Notes to the cash flow statement

	2018 £000	2017 £000
Reconciliation of operating profit to net cash flow from operating activities		
Profit for the financial year	**7,416**	2,399
Tax on profit	**1,744**	614
Net interest expense	**-**	-
Other income	**(826)**	
Operating profit	**8,334**	3,013
Amortisation of intangible assets	**10**	-
Depreciation of tangible assets	**186**	53
Loss on disposal of tangible assets	**-**	3
Increase in debtors	**(3,252)**	(826)
Increase/(decrease) in creditors (excluding tax related items)	**(624)**	1,807
Net cash flow from operating activities	**4,654**	4,050

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 2018 £000	Sales 2017 £000	**Other recharges 2018 £000**	Other recharges 2017 £000	**Balance Dr/(Cr) 2018 £000**	Balance Dr/(Cr) 2017 £000
Lush Ltd.	**18,600**	15,000	**(9,303)**	(9,306)	**5,356**	2,119
Lush Manufacturing Limited	**-**	-	**(963)**	(207)	**(164)**	(67)
Lush Retail Limited	**-**	-	**(108)**	(76)	**(69)**	(12)
Lush GbmH	**-**	-	**(53)**	(57)	**(16)**	(4)
ECC Records Limited	**-**	-	**-**	299	**-**	1
Lush Cosmetics Limited	**-**	-	**220**	135	**54**	176
Lush Russia LLC	**-**	549	**-**	-	**101**	105
Lush Global Digital Limited	**-**	-	**(30)**	-	**(19)**	-

Cosmetic Warriors Limited receives royalties from Lush Ltd. 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.

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.

Notes to the financial statements *(continued)*

19 Related party disclosures *(continued)*

Within the transactions set out above are rental recharges from Lush Ltd. in the year amounting to £61,000 *(2017: £61,000)*. These amounts include rent paid for properties jointly owned by Mr M Constantine and Mrs M Constantine amounting to £11,000 *(2017: £11,000)*.

In addition to the amounts disclosed in the table above, the Company has a short-term debtor account with the directors. At 30 June 2018, the amounts due from the directors totalled £21,000 *(2017: £21,000)*. The balance is considered to be repayable on demand and is interest free.

Accounting Policies

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.

20 Ultimate controlling party

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

Notes to the financial statements *(continued)*

21 General accounting policies

a) Statement of compliance

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

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

The financial statements of the Company 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) Going concern

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period.

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

c) Basis of preparation

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

The Company is not required to prepare consolidated financial statements under s405 of the Companies Act 2006 and FRS102, on the basis that its subsidiary is not material for the purpose of giving a true and fair view. These financial statements are the Company's separate financial statements.

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

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.

d) Foreign currency

Functional and presentation currency

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

e) Critical accounting estimates and assumptions

Estimates and judgements are based on historical experience and other factors, including reasonable expectations of future events. The directors consider that there have been no estimates or judgements made that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.