

**Morphe Cosmetics Limited**

**Annual Report and Financial Statements for the year ended 31 December 2019**

**Registered number: 10771654**



**MORPHE COSMETICS LIMITED**

**Company Information**

**Directors**

M McCormick  
C Dean  
M Guy-Hamilton  
C Tawil  
L Tawil

**Secretary**

Jordans Company Secretaries Limited

**Company Number**

10771654 (England and Wales)

**Registered Office**

Suite 1  
3rd Floor 11 - 12 St. James's Square  
London  
England  
SW1Y 4LB

**Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
One Kingsway  
Cardiff  
CF10 3PW

**MORPHE COSMETICS  
LIMITED**

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**MORPHE COSMETICS  
LIMITED**  
**Strategic Report for the year ended 31 December 2019**

The directors present their strategic report on the company for the year ended 31 December 2019.

**Review of the business**

The Company's principal activities during the year continued to be that of retailers and wholesalers of beauty products in the UK and EU. The business continued to perform well as new channels including new Morphe free standing stores were opened and partnerships with retailers were developed. In addition the product range was expanded with both Morphe brand products and 3<sup>rd</sup> party brands.

The Company's key financial and other performance indicators during the year were as follows

	Year Ended 31 December 2019 £000s	Year ended 31 December 2018 £000s
Turnover	39,449	21,605
Total operating profit	724	871
Profit after tax	765	795
Shareholders' funds	1,472	708
Current assets as % of current liabilities ('quick ratio')	72%	85%

**Future Developments**

The Company anticipates further growth in 2020 driven by the opening of new stores and new partnerships with retailers in addition to expanding the current product range into new categories.

In 2020, there was an outbreak of Coronavirus Disease 2019 ("COVID-19" or "the coronavirus"). There have been unprecedented measures put in place by governments across the globe, to contain the coronavirus which have had a significant impact on the economy. The current conditions continue to create uncertainty over the level of demand for the company's products. The company has shifted its focus to its online business and has implemented compensating cost saving measures to mitigate the effects of changing customer demand. The impact of COVID-19 is a non-adjusting post balance sheet event.

The Company is monitoring the development of the coronavirus and the measures taken to control it and will continue to evaluate its impact on the financial position and operating results of the Group. As at the date these financial statements were authorised, the Company was not aware of any material adverse effects on the financial statements as a result of the coronavirus.

Directors after making enquiries have the expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The group is supported by its parent through an intercompany payable of £16.3m as a result of financing support and supply of product. As such the Company has requested an intercompany confirmation that the Group will not call this balance unless sufficient funding is available and will provide additional support when required. Morphe Cosmetics Limited has received written confirmation from its immediate parent, Morphe Holdings LLC, that it will continue to provide financial support to the company for a period of at least 12 months from the date of signing of these financial statements.

Morphe Holdings LLC is subject to a financial covenant as part of its credit facility that requires the Company to meet a quarterly limit on its ratio of net debt to EBITDA (leverage ratio). Due to the continued uncertainty around the impact of the pandemic, Morphe Holdings LLC may not be able to maintain compliance with this financial covenant, which may result in default under the agreement and amounts outstanding may become callable. The management of Morphe Holdings LLC have evaluated the significance of this condition in relation to the Morphe Holding LLC ability to comply with such financial covenants under its credit facility and as a result believes there is substantial doubt about the Morphe Holding LLC ability to continue as a going concern within one year after the date that the financial statements are issued. The financial statements of Morphe Holdings LLC do not include any adjustments that might result from this uncertainty.

The assessment by the Directors of the company have reflected on the financial position of Morphe Holdings LLC as immediate parent and these conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statements included within the Annual Report and Financial Statements do not include any adjustments that might result from this uncertainty.

The company therefore continues to adopt the going concern basis in preparing its financial statements.

**Principal risks and uncertainties**

The principal risks and uncertainties facing the Company are broadly grouped as – competition, Brexit risks and exposure to credit, liquidity and cash flow instrument risk.

**Competitive risks**

Competitive pressures exist both from the increasing number of beauty products emerging on to the market as well as the introduction of new brands. We expect competition to continue to be fierce and will continue to use our marketing and promotional activities to maintain and grow the Company's market share.

## **Brexit Risks**

Following the UK's departure from the EU on 31 January 2020, the Company is closely tracking developments in agreements and policy to come into effect after the transition period ending 31 December 2020. The Company continues to take steps in order to meet any requirements and guidance that become applicable. At present it is not possible to fully quantify the impact that any new requirements will have on the company as they are not yet known.

The Company remains committed to continuing to have a diverse workforce and as such has not changed its approach towards recruitment, including employing EU nationals. We are monitoring the situation closely to manage the potential impact on our business and understand how Brexit may affect EU nationals working for the company in the UK. This includes tracking guidance published by the UK Government which states that EU citizens resident in the UK by 29 March 2019 will be able to remain in the UK and that the necessary steps will be taken to protect residents' rights. Any EU citizen living in the UK is eligible to apply to the EU Settlement Scheme and will have until 31 December 2020 to do so, which we believe will mitigate the impact of Brexit on our current workforce.

Future trading may be impacted by Brexit, particularly if it adversely impacts Consumer Confidence. In addition there may be additional operating costs including increases in customs duties but we believe that we have a strong and resilient portfolio of products to help mitigate the financial impact of Brexit.

## **Exposure to credit, liquidity and cash flow risk**

**Credit risk** is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation. Company policies are aimed at minimising such losses and require that deferred payment terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness tests. Details of the Company's debtors are shown in note x to the financial statements.

**Liquidity risk** is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets.

**Cash flow risk** is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability. The Company manages this risk with support from our parent company and by access to flexible banking arrangements in addition to planning cash inflows and outflows.

On behalf of the board



**Myles McCormick**  
18<sup>th</sup> December 2020  
Director

**MORPHE COSMETICS  
LIMITED**

**Directors' Report for the year ended 31 December 2019**

The directors present their annual report and the audited financial statements of Morphe Cosmetics Limited (the "Company") for the year ended 31 December 2019. The comparative is for the year to 31 December 2018.

**Principal activity**

The company's principal activity during the period was the sale of cosmetics, cosmetic brushes and accessories.

**Directors**

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

- Myles Breen McCormick
- Christopher John Dean
- Matthew Phillip Guy-Hamilton
- Chris Abdul Tawil
- Linda Tawil

**Results and Dividends**

The results of the Company for the year ended 31 December 2019 are shown in the profit and loss account on page 9 and show a profit for the financial year of £764,501 and prior year £707,790. The Directors do not recommend the payment of a dividend (2018 £nil).

**Future Developments**

Please refer to the Strategic report for details of future developments.

**Going Concern**

Directors after making enquiries have the expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The group is supported by its parent through an intercompany payable of £16.3m as a result of financing support and supply of product. As such the Company has requested an intercompany confirmation that the Group will not call this balance unless sufficient funding is available and will provide additional support when required. Morphe Cosmetics Limited has received written confirmation from its immediate parent, Morphe Holdings LLC, that it will continue to provide financial support to the company for a period of at least 12 months from the date of signing of these financial statements.

Morphe Holdings LLC is subject to a financial covenant as part of its credit facility that requires the Company to meet a quarterly limit on its ratio of net debt to EBITDA (leverage ratio). Due to the continued uncertainty around the impact of the pandemic, Morphe Holdings LLC may not be able to maintain compliance with this financial covenant, which may result in default under the agreement and amounts outstanding may become callable. The management of Morphe Holdings LLC have evaluated the significance of this condition in relation to the Morphe Holding LLC ability to comply with such financial covenants under its credit facility and as a result believes there is substantial doubt about the Morphe Holding LLC ability to continue as a going concern within one year after the date that the financial statements are issued. The financial statements of Morphe Holdings LLC do not include any adjustments that might result from this uncertainty.

The assessment by the Directors of the company have reflected on the financial position of Morphe Holdings LLC as immediate parent and these conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statements included within the Annual Report and Financial Statements do not include any adjustments that might result from this uncertainty.

**Statement of directors' responsibilities**

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 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.

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.

**Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

**Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Independent Auditors**

Under section 467(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier

This report was approved by the board and signed on its behalf by.



**Myles McCormick**  
18<sup>th</sup> December 2020  
Director

# ***Independent auditors' report to the members of Morphe Cosmetics Limited***

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

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### **Opinion**

In our opinion, Morphe Cosmetics Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 31 December 2019; the statement of income and retained earnings, the statement of comprehensive income, the cash flow statement, the statement of changes in equity 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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### **Material uncertainty related to going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.3 to the financial statements concerning the company's ability to continue as a going concern. The ultimate parent company Morphe Holdings LLC has provided a letter of support for the continued operations of the company. However the Morphe Holdings LLC financial statements for the year ended 31 December 2019 which were signed 21 May 2020 refer to a material uncertainty related to going concern. Forecasts suggest the parent company may not be able to maintain compliance with its credit facility's financial covenant during the 12 months following issuance of the financial statements, and as a result, substantial doubt exists about the ability of Morphe Holdings LLC to continue as a going concern. These conditions, explained in note 1.3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable 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.

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 31 December 2019 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.

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### **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, 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.



Jason Clarke (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cardiff  
21 December 2020

**MORPHE COSMETICS LIMITED**  
**Statement of Income and Retained Earnings**  
**For the year ended 31 December 2019**

		Year ended 31 December 2019 £	Year ended 31 December 2018 £
	Note		
Turnover	3	39,449,282	21,605,210
Cost of sales		<u>(21,324,038)</u>	<u>(11,960,581)</u>
Gross profit		18,125,244	9,644,629
Administrative expenses		<u>(17,291,899)</u>	<u>(8,241,059)</u>
Other operating (expense)/income		<u>(109,529)</u>	<u>(532,282)</u>
Profit/(loss) before interest		723,816	871,288
Interest payable and similar expenses	4	<u>(-)</u>	<u>(129)</u>
Profit / (loss) before tax	5	723,816	871,159
Tax on profit/(loss)		<u>40,685</u>	<u>(75,990)</u>
Profit/(loss) for the financial year	8	<u>764,501</u>	<u>795,169</u>
Retained Earnings/(Accumulated Losses)			
Retained Earnings/(Accumulated Losses) at the beginning of the financial period		<u>707,790</u>	<u>(87,379)</u>
Profit/(loss) for the financial period		<u>764,501</u>	<u>795,169</u>
Retained Earnings at the end of the financial period		<u>1,472,291</u>	<u>707,790</u>

The notes on pages 14 to 20 form part of these financial statements

**MORPHE COSMETICS LIMITED**  
**Statement of Comprehensive Income for the year ended 31 December 2019**

	Year ended 31 December 2019	Year ended 31 December 2018
	£	£
Profit for the Financial year	764,501	795,169
Total comprehensive income for the year	<u>764,501</u>	<u>795,169</u>

**MORPHE COSMETICS LIMITED**  
**Balance Sheet as at 31 December 2019**

	Notes	£	2019 £	£	2018 £
<b>Fixed assets</b>					
Tangible assets	9		7,161,794		2,560,970
<b>Current assets</b>					
Stocks	10	5,819,478		4,415,662	
Debtors: amounts falling within one year	11	5,876,901		2,176,214	
Cash at bank and in hand		<u>4,146,684</u>		<u>5,505,362</u>	
		15,843,063		12,097,238	
Creditors: amounts falling due within one year	12	<u>(21,868,457)</u>		<u>(14,222,817)</u>	
<b>Net current (liabilities)</b>			<u>(6,025,394)</u>		<u>(2,125,579)</u>
Debtors amounts falling due after more than one year	11		<u>851,370</u>		<u>272,400</u>
<b>Total assets less current liabilities</b>			<u>1,987,770</u>		<u>707,791</u>
Creditors: amounts falling due after more than one year	13		<u>(515,478)</u>		<u>(-)</u>
<b>Net assets /(liabilities)</b>			<u>1,472,292</u>		<u>707,791</u>
<b>Capital and reserves</b>					
Called up share capital	15		1		1
Profit and loss account			<u>1,472,291</u>		<u>707,790</u>
<b>Total Shareholders' Funds/(Deficit)</b>			<u>1,472,292</u>		<u>707,791</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Myles McCormick (Director)  
18<sup>th</sup> December 2020  
Morphe Cosmetics Limited  
Company No. 10771654 (England and Wales)

The notes on pages 14 to 20 form part of these financial statements.

**MORPHE COSMETICS LIMITED****Statement of Changes in Equity for the year ended 31 December 2019**

	Called up share capital £	(Accumulated losses)/Retained earnings £	Total equity £
Balance as at 1 January 2018	1	(87,379)	(87,378)
Profit for the year	-	795,169	795,169
Balance as at 31 December 2018 and 1 January 2019	1	707,790	707,791
Profit for the year	-	764,501	764,501
Balances as at 31 December 2019	1	1,472,291	1,472,292

Profit and loss accounts represents cumulative retained comprehensive income.

**MORPHE COSMETICS LIMITED****Cash flow statement for the year ended 31 December 2019**

	Note	2019 £	2018 £
Net cash from operating activities	16	4,042,076	7,458,940
Taxation paid		(74,364)	-
Net cash generated from operating activities		3,967,712	7,458,940
Cash flow from investing activities			
Purchase of tangible assets		(5,326,390)	(2,614,727)
Net cash used in investing activities		(5,326,390)	(2,614,727)
Cash flow from financing activities			
Interest paid		-	(129)
Net cash used in financing activities		-	(129)
Net (decrease)/increase in cash and cash equivalents		(1,358,678)	4,844,084
Cash and cash equivalents at the beginning of the year		5,505,362	661,278
Cash and cash equivalents at the end of the year		4,146,684	5,505,362
Cash and cash equivalents consists of:			
Cash at bank and in hand		4,146,684	5,505,362
Cash and cash equivalents		4,146,684	5,505,362

## **MORPHE COSMETICS LIMITED**

### **Notes to the financial statements for the year ended 31 December 2019**

#### **1 ACCOUNTING POLICIES**

##### **1.1 Statement of compliance**

The financial statements of Morphe Cosmetics Limited have been prepared in accordance with Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Companies Act 2006.

##### **1.2 General Information**

Morphe Cosmetics Limited (company number: 10771654) is a private company limited by shares and incorporated in England and Wales. Its registered office is Suite 1, 3rd Floor 11 & 12 St. James's Square, London, England, SW1Y 4LB.

##### **Summary of Significant accounts policies**

The principal accounting policies 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. The company has adopted FRS 102 in these financial statements

##### **Basis of Preparation of financial statements**

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of the financial statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

##### **1.3 Going concern**

Directors after making enquiries have the expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The group is supported by its parent through an intercompany payable of £16.3m as a result of financing support and supply of product. As such the Company has requested an intercompany confirmation that the Group will not call this balance unless sufficient funding is available and will provide additional support when required. Morphe Cosmetics Limited has received written confirmation from its immediate parent, Morphe Holdings LLC, that it will continue to provide financial support to the company for a period of at least 12 months from the date of signing of these financial statements.

Morphe Holdings LLC is subject to a financial covenant as part of its credit facility that requires the Company to meet a quarterly limit on its ratio of net debt to EBITDA (leverage ratio). Due to the continued uncertainty around the impact of the pandemic, Morphe Holdings LLC may not be able to maintain compliance with this financial covenant, which may result in default under the agreement and amounts outstanding may become callable. The management of Morphe Holdings LLC have evaluated the significance of this condition in relation to the Morphe Holding LLC ability to comply with such financial covenants under its credit facility and as a result believes there is substantial doubt about the Morphe Holding LLC ability to continue as a going concern within one year after the date that the financial statements are issued. The financial statements of Morphe Holdings LLC do not include any adjustments that might result from this uncertainty.

The assessment by the Directors of the company have reflected on the financial position of Morphe Holdings LLC as immediate parent and these conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statements included within the Annual Report and Financial Statements do not include any adjustments that might result from this uncertainty. The company therefore continues to adopt the going concern basis in preparing its financial statements.

##### **1.4 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Estimated customer returns, rebates and other similar allowances are deducted from revenue.

Revenue from the sale of goods is recognised at the point of delivery when the risks and rewards pass to the customer.

##### **1.5 Tangible assets**

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

Leasehold improvements, fixtures and fittings and plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows: Leasehold improvements 5 to 7 years;  
Fixtures and fittings 3 to 5 years;  
Plant and machinery 3 to 5 years

**MORPHE COSMETICS LIMITED**  
**Notes to the financial statements for the year ended 31 December 2019**

**1 ACCOUNTING POLICIES (continued)**

**1.6 Stocks**

Stocks are stated at the lower of cost and estimated selling price (net realisable value). Net realisable value is based on the estimated selling price less any estimated completion or selling costs.

When stocks are sold, the carrying amount of those stocks is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of stocks to net realisable value and all losses of stocks are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of stocks is recognised as a reduction in the amount of stocks recognised as an expense in the period in which the reversal occurs.

**1.7 Employee benefits**

The company provides a range of benefits to employees, including defined contribution pension plans.

The Company operates a defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

**1.8 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**1.9 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less.

**1.10 Foreign currencies**

The company's functional and presentational currency is GBP. Transactions in currencies, other than the functional currency of the company, are recorded at the rate of exchange on the date the transaction occurred. Monetary items denominated in other currencies are translated at the rate prevailing at the end of the reporting period. All differences are taken to the profit and loss account. Non-monetary items that are measured at historic cost in a foreign currency are not retranslated.

**1.11 Current and deferred taxation**

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, 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.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated by not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the

differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**1.12 Financial instruments**

**Financial assets**

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired 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. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the



## MORPHE COSMETICS LIMITED

Notes to the financial statements for the year ended 31 December 2019

### ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

Impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment. Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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 rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which result in fixed returns to the holder or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 1.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### 1.14 Leases

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

### 2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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.

#### Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### Useful economic lives of tangible assets (note x)

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. The remaining useful economic life of the store assets are not considered a source of significant estimation uncertainty.

**MORPHE COSMETICS LIMITED**  
**Notes to the financial statements for the year ended 31 December 2019**

**Inventory provisioning**

The provision for inventory is sensitive to forecasts of future sales per inventory unit. The provision is amended as forecasts are adjusted to reflect current estimates. The provision for inventory is not considered a source of significant estimation uncertainty.

**Impairment of Debtors**

The provision for doubtful debts is sensitive to estimates of the ability of debtors to meet payments due based on an assessment of their financial position and adjusted for the ability to recover inventory held by debtors for future resale. The provision is amended as the position of debtors changes. The provision for doubtful debts is not considered a source of significant estimation uncertainty.

**3 TURNOVER**

**Analysis of turnover by geography:**

	Year Ending 31 December 2019	Year Ending 31 December 2018
	£s	£s
UK	32,188,380	15,973,561
France	1,383,151	838,997
Germany	996,595	648,099
Ireland	1,068,157	1,158,447
Netherlands	552,335	288,804
Rest of Europe	3,260,664	2,697,302
	39,449,282	21,605,210
<b>Analysis of turnover by category:</b>		
Sales of goods	39,449,282	21,605,210

**4 Operating Profit**

Operating profit is stated after charging/(crediting):

	Year Ending 31 December 2019	Year Ending 31 December 2018
	£	£
Depreciation on owned assets	725,567	68,631
Operating lease charges	1,498,220	455,320
Foreign exchange losses / (gains)	109,529	532,282
on trade receivables		
Audit fees payable to the Company's Auditors	65,000	36,000

**5 Interest payable and similar expenses**

	Year Ending 31 December 2019	Year Ending 31 December 2018
	£	£
Interest payable on bank loans and overdrafts	-	129
	-	129

**6 Employees and Directors**

The average monthly number of persons employed by the company (including directors) during the year was:

	2019 No.	2018 No.
Selling and distribution	84	14
Administration	21	9
Total	105	23

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £	2018 £
Wages and Salaries	3,114,018	1,153,949
Social Security Costs	268,936	129,972
Other Pension costs	128,423	52,048
Total	3,511,377	1,335,969

The Directors were remunerated solely via the holding company.

**MORPHE COSMETICS LIMITED**
**Notes to the financial statements for the year ended 31 December 2019**
**7 Auditors' Remuneration**

Fees payable to the company's auditors for the audit of the company's financial statements totalled £65,000 (year ended 31 December 2018: £36,000)

**8 Tax on Profit**
**a. Tax (credit)/expense included in Profit and Loss**

	2019 £	2018 £
<b>Current Tax:</b>		
-UK Corporation tax on profit for the current year	-	75,990
-Adjustment in respect of prior periods	(40,685)	-
<b>Total Current Tax and tax included in other comprehensive income</b>	<b>(40,685)</b>	<b>75,990</b>

**b. Reconciliation of the tax charge**

Tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%).

The differences are explained below:

	2019 £	2018 £
Profit before tax	723,816	871,159
Profit multiplied by the standard rate of tax in the UK of 19% (2018: 19%)	137,525	165,520
<b>Effects of:</b>		
- Adjustments to tax charge in respect of prior years	(40,685)	-
- Capital allowances in excess of depreciation	(192,893)	(89,530)
- Other Adjustments	55,368	-
<b>Tax (credit) / charge for the year</b>	<b>(40,685)</b>	<b>75,990</b>

**c. Tax rate changes**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporation tax rate from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%. However, it is possible that the corporation tax rate remains at 19% after 1 April 2020.

**9 Tangible assets**

	Leasehold improvements £	Fixtures and fittings £	Plant and machinery £	Total £
<b>Cost</b>				
At 1 January 2019	1,523,466	734,954	371,606	2,630,026
Additions	2,734,948	2,256,561	334,882	5,326,390
At 31 December 2019	4,258,414	2,991,515	706,488	7,956,417
<b>Accumulated Depreciation</b>				
At 1 January 2019	38,999	13,483	16,574	69,056
Charge for the year	474,390	193,223	57,954	725,567
At 31 December 2019	513,389	206,706	74,528	794,623
<b>Net book value</b>				
At 31 December 2019	3,745,025	2,784,809	631,960	7,161,794
At 31 December 2018	1,484,467	721,471	355,032	2,560,970

**MORPHE COSMETICS LIMITED**  
**Notes to the financial statements for the year ended 31 December 2019**

<b>10</b>	<b>Stocks</b>	<b>2019</b>	<b>2018</b>
		£	£
	Finished goods and goods held for resale	<u>5,819,478</u>	<u>4,415,662</u>
		<b>5,819,478</b>	<b>4,415,662</b>

<b>11</b>	<b>Debtors</b>	<b>2019</b>	<b>2018</b>
		£	£
	Debtors: amounts falling due within one year		
	Trade debtors	3,467,422	1,886,529
	Corporation Tax recoverable	39,058	-
	Other debtors	1,853,530	98,840
	Prepayments and accrued income	<u>516,891</u>	<u>190,845</u>
		<b>5,876,901</b>	<b>2,176,214</b>
	Debtors: amounts falling due after more than 1 year		
	Deposits	<u>851,370</u>	<u>272,400</u>

<b>12</b>	<b>Creditors: amounts falling due within one year</b>	<b>2019</b>	<b>2018</b>
		£	£
	Trade creditors	2,350,068	1,322,241
	Amounts owed to Group undertakings	16,302,576	10,499,618
	Other taxation and social security	2,518,469	391,789
	Corporation tax	-	75,990
	Deferred Rent	129,465	-
	Accruals and deferred income	<u>567,879</u>	<u>1,933,179</u>
		<b>21,868,457</b>	<b>14,222,817</b>

Amounts owed to group undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

<b>13</b>	<b>Creditors: amounts falling due after more than year</b>	<b>2019</b>	<b>2018</b>
		£	£
	Amounts falling due between one and five years	-	-
	Deferred Rent	<u>515,478</u>	-
		<b>515,478</b>	-

<b>14</b>	<b>Operating leases</b>		
	The company had the following future minimum lease payments under noncancellable operating leases for each of the following periods:		
	Payment due	<b>2019</b>	<b>2018</b>
		£	£
	Not later than one year	1,629,097	747,744
	Later than one year and not later than five years	7,456,756	3,133,756
	Later than five years	7,893,239	2,486,196
		<b>16,979,092</b>	<b>6,367,696</b>

<b>15</b>	<b>Called up Share Capital</b>	<b>2019</b>	<b>2018</b>
	Ordinary share of £1 each	£	£
	Allotted and fully paid	1	1
	At 1 January and 31 December	<b>1</b>	<b>1</b>

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

No dividend is paid or declared for the year ended 31 December 2019 (2018: £-).

**MORPHE COSMETICS LIMITED**

Notes to the financial statements for the year ended 31 December 2019

**16 Notes to the Statement of Cash Flows**

	2019	2018
	£	£
Profit for the financial year	764,501	795,169
Tax on profit	(40,685)	75,990
Net interest expenses	-	129
Operating profit/Profit before interest	<u>723,816</u>	<u>871,288</u>
Depreciation of tangible assets	725,567	68,631
Working capital movements:		
- (Increase) in inventories	(1,403,816)	(3,076,481)
- (Increase) in debtors	(4,240,599)	(2,133,410)
- Increase in payables	<u>8,237,108</u>	<u>11,728,912</u>
Cash flow from operating activities	<u>4,042,076</u>	<u>7,458,940</u>

**17 Related party transactions**

During 2019 the company purchased £18,465,862 (2018: £11,004,573) of inventory from Morphe LLC, its parent company. The amount due to Morphe LLC at the end of 2019 is £16,302,576 (2018 : £10,499,618)

See note 6 for disclosure of the directors' remuneration and key management compensation.

**18 Ultimate parent undertaking and controlling party**

The company is wholly owned by Morphe LLC (parent company), a US based Corporation. The registered address of Morphe LLC is 22, 4th Street, San Francisco, CA 94103.

The smallest group to consolidate these financial statements is Morphe Holdings LLC

The ultimate parent undertaking and the largest group to consolidate these financial statements is Elevate Brand Partners L.P, the ultimate controlling party.