

Company registration number 10771654 (England and Wales)

MORPHE COSMETICS LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

Tavistock House South
Tavistock Square
London
WC1H 9LG

Rayner Essex LLP
Chartered Accountants

MORPHE COSMETICS LTD

COMPANY INFORMATION

Directors	Cecile Budge	(Appointed 1 November 2022)
	Simon Cowell	(Appointed 16 March 2022)
Company number	10771654	
Registered office	Suite 1 7th Floor Broadway London SW1H 0BL	
Auditor	Rayner Essex LLP Tavistock House South Tavistock Square London WC1H 9LG	

MORPHE COSMETICS LTD

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MORPHE COSMETICS LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present the strategic report for the year ended 31 December 2022.

Review of the business

The company's principal activity continued to be that of retailers and wholesalers of cosmetics, cosmetic brushes and accessories in the UK and EU.

The business continued to perform well as new partnerships with retailers were developed. In addition the product range was expanded with both Morphe brand products and 3rd party brands.

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

	Year ended 31 December 2022	Year ended 31 December 2021
	£000s	£000s
Turnover	32,162	33,425
Total operating profit/(loss)	357	(1,538)
Profit/(loss) after tax	357	(1,455)
Shareholders' funds	925	568
Current assets as % current liabilities	81%	67%

Future Developments

The Company anticipates growth in 2023 driven by new partnerships with retailers in addition to expanding the current product range into new categories and via an expansion of the brand portfolio.

Based on enquiries, the Directors expect that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company is supported by its immediate parent, Morphe, LLC ("Morphe USA"), through an intercompany payable of £23.0 million which comprises both financing support and supply of product. As such, the Company has requested an intercompany confirmation that Morphe USA will not require repayment of this balance unless sufficient funding is available and will provide additional support to the Company when required. Morphe Cosmetics Limited has received written confirmation from Morphe USA 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 the Annual Report and Financial Statements.

In 2022, Morphe USA's indirect parent, FB Debt Financing Guarantor, LLC ("FBDG") initiated actions to improve its financial performance and generate more cash from operations. In April 2023, the ultimate parent company, Forma Brand Holdings LLC was purchased by Jefferies Financial Group Inc via a Debt to Equity Swap. On 7 April 2023, Morphe Cosmetics Limited converted £9,242,942 of intercompany debt into 1 Ordinary Share to a new intermediate parent company, Beauty Brands Acquisition (UK) Limited. The overall controlling party from this date was Jefferies Financial Group Inc.

The assessment by the Directors of the Company have reflected on the financial position of Morphe USA as immediate parent, of Morphe USA's indirect parent, and the impact on Morphe USA's ability to honour the letter of support provided to the Company. Without the ongoing financing support provided through the intercompany facility and supply of product, the Company may be unable to meet its liabilities as they fall due. 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 with the Annual Report and Financial Statements do not include any adjustments that would result if the Company were unable to continue as a going concern.

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

MORPHE COSMETICS LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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. In particular leaving the EU Single Market and the associated tax and duty changes since 1st January 2021 have had an impact on the company's sales to Europe. At present there are still further impacts which it is not possible to fully quantify where any new requirements may have an effect on the company.

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. Issues have arisen during the period since Brexit around shipping and transportation and the company continues to manage the risks in these areas.

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 11 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

Cecile Budge
Director

12 January 2024

MORPHE COSMETICS LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and financial statements for the year ended 31 December 2022.

Principal activities

The company's principal activity continued to be that of retailers and wholesalers of cosmetics, cosmetic brushes and accessories in the UK and EU.

Results and dividends

The results for the year are set out on page 8.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Directors

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

Simon Cowell	(Appointed 16 March 2022)
Cecile Budge	(Appointed 1 November 2022)
Eric Hohl	(Appointed 16 March 2022 & Resigned 14 October 2022)
Matthew Lloyd	(Resigned 16 March 2022)
Myles McCormick	(Resigned 7 January 2022)

Secretary

Vistra Company Secretaries Limited (Resigned 4 December 2023)

Auditor

Rayner Essex LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

MORPHE COSMETICS LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Medium-sized companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the medium-sized companies exemption.

On behalf of the board

Cecile Budge

Director

12 January 2024

MORPHE COSMETICS LTD

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MORPHE COSMETICS LTD

Opinion

We have audited the financial statements of Morphe Cosmetics Ltd (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1.2 in the financial statements, which indicates that the company is reliant upon the support from its parent company Morphe, LLC ("Morphe USA"). Without the ongoing financing support provided through the intercompany facility and supply of product, the Company may be unable to meet its liabilities as they fall due. 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.

As stated in Note 1.2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MORPHE COSMETICS LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF MORPHE COSMETICS LTD

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the company through discussions with the directors and other management, and from our commercial knowledge and experience of the sector they operate in;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company, including the Companies Act 2006, taxation legislation and data protection, anti-bribery, employment and GDPR regulations;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

MORPHE COSMETICS LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF MORPHE COSMETICS LTD

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates set out in note 2 were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters which we are required to address

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion, with commentary included in relation to a material uncertainty related to going concern, on 12 January 2023.

Use of our report

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.

Lucy Kate Ghawss ACA
Senior Statutory Auditor
For and on behalf of Rayner Essex LLP

17 January 2024

Chartered Accountants
Statutory Auditor

Tavistock House South
Tavistock Square
London
WC1H 9LG

MORPHE COSMETICS LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £	2021 £
Turnover	3	32,162,270	33,425,386
Cost of sales		(9,594,633)	(13,688,228)
Gross profit		22,567,637	19,737,158
Administrative expenses		(22,211,032)	(21,275,616)
Profit/(loss) before taxation		356,605	(1,538,458)
Tax on profit/(loss)	7	-	83,907
Profit/(loss) for the financial year		356,605	(1,454,551)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

MORPHE COSMETICS LTD

BALANCE SHEET

AS AT 31 DECEMBER 2022

		2022	2021
	Notes	£	£
Fixed assets			
Tangible assets	9	6,792,984	7,536,365
Current assets			
Stocks	10	9,722,185	8,010,456
Debtors falling due after more than one year	11	616,836	930,385
Debtors falling due within one year	11	13,423,242	4,624,493
Cash at bank and in hand		1,374,212	2,607,269
		<u>25,136,475</u>	<u>16,172,603</u>
Creditors: amounts falling due within one year	12	<u>(30,357,562)</u>	<u>(22,625,154)</u>
Net current liabilities		<u>(5,221,087)</u>	<u>(6,452,551)</u>
Total assets less current liabilities		<u>1,571,897</u>	<u>1,083,814</u>
Creditors: amounts falling due after more than one year	13	<u>(646,956)</u>	<u>(515,478)</u>
Net assets		<u><u>924,941</u></u>	<u><u>568,336</u></u>
Capital and reserves			
Called up share capital	18	1	1
Profit and loss reserves		<u>924,940</u>	<u>568,335</u>
Total equity		<u><u>924,941</u></u>	<u><u>568,336</u></u>

These financial statements have been prepared in accordance with the provisions relating to medium-sized companies.

The financial statements were approved by the board of directors and authorised for issue on 12 January 2024 and are signed on its behalf by:

Cecile Budge
Director

Company registration number 10771654 (England and Wales)

MORPHE COSMETICS LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Profit and loss reserves	Total
	£	£	£
Balance at 1 January 2021:	1	2,022,886	2,022,887
Year ended 31 December 2021:			
Loss and total comprehensive income	-	(1,454,551)	(1,454,551)
Balance at 31 December 2021	1	568,335	568,336
Year ended 31 December 2022:			
Profit and total comprehensive income	-	356,605	356,605
Balance at 31 December 2022	1	924,940	924,941

MORPHE COSMETICS LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £	£	2021 £	£
Cash flows from operating activities					
Cash (absorbed by)/generated from operations	15		(239,162)		3,488,523
Income taxes (paid)/refunded			(44,347)		9,691
Net cash (outflow)/inflow from operating activities			(283,509)		3,498,214
Investing activities					
Purchase of tangible fixed assets		(949,548)		(3,754,454)	
Net cash used in investing activities			(949,548)		(3,754,454)
Net decrease in cash and cash equivalents			(1,233,057)		(256,240)
Cash and cash equivalents at beginning of year			2,607,269		2,863,509
Cash and cash equivalents at end of year			1,374,212		2,607,269

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

Morphe Cosmetics Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Suite 1, 7th Floor Broadway, London, SW1H 0BL.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

Based on enquiries, the Directors expect that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company is supported by its immediate parent, Morphe, LLC ("Morphe USA"), through an intercompany payable of £23.0 million which comprises both financing support and supply of product. As such, the Company has requested an intercompany confirmation that Morphe USA will not require repayment of this balance unless sufficient funding is available and will provide additional support to the Company when required. Morphe Cosmetics Limited has received written confirmation from Morphe USA 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 the Annual Report and Financial Statements.

In 2022, Morphe USA's indirect parent, FB Debt Financing Guarantor, LLC ("FBDG") initiated actions to improve its financial performance and generate more cash from operations. In April 2023, the ultimate parent company, Forma Brand Holdings LLC was purchased by Jefferies Financial Group Inc via a Debt to Equity Swap. On 7 April 2023, Morphe Cosmetics Limited converted £9,242,942 of intercompany debt into 1 Ordinary Share to a new intermediate parent company, Beauty Brands Acquisition (UK) Limited. The overall controlling party from this date was Jefferies Financial Group Inc.

The assessment by the Directors of the Company have reflected on the financial position of Morphe USA as immediate parent, of Morphe USA's indirect parent, and the impact on Morphe USA's ability to honour the letter of support provided to the Company. Without the ongoing financing support provided through the intercompany facility and supply of product, the Company may be unable to meet its liabilities as they fall due. 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 with the Annual Report and Financial Statements do not include any adjustments that would result if the Company were unable to continue as a going concern. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

1.3 Turnover

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.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	5 to 7 years straight line
Plant and equipment	3 to 5 years straight line
Fixtures and fittings	3 to 7 years straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of cost and replacement cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.7 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with 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.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method 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. Financial assets classified as receivable within one year are not amortised.

Other financial assets

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.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. 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 impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, 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 payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts 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 creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

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 finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.9 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.11 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.12 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.13 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.14 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Useful economic lives of tangible assets

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.

Impairment of debtors

The provision for doubtful debts is sensitive to estimates of the ability of the 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 to be a source of significant estimation uncertainty.

3 Turnover

	2022	2021
	£	£
Turnover analysed by class of business		
Sales of goods	32,162,270	33,425,386
	<u>32,162,270</u>	<u>33,425,386</u>
	2022	2021
	£	£
Turnover analysed by geographical market		
UK	18,607,771	22,071,182
France	2,857,393	1,990,294
Germany	3,279,460	2,573,753
Ireland	550,988	602,871
Netherlands	1,094,728	966,685
Italy	1,964,278	994,516
Rest of Europe	3,807,652	4,226,085
	<u>32,162,270</u>	<u>33,425,386</u>

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

4 Operating profit/(loss)

	2022 £	2021 £
Operating profit/(loss) for the year is stated after charging:		
Exchange losses	2,304,508	492,859
Fees payable to the company's auditor for the audit of the company's financial statements	71,700	71,700
Depreciation of owned tangible fixed assets	1,692,929	1,664,284
Impairment of owned tangible fixed assets	-	1,447,282
Operating lease charges	2,172,445	2,131,607
	<u> </u>	<u> </u>

5 Employees

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

	2022 Number	2021 Number
Selling and distribution	121	116
Administration	28	30
	<u> </u>	<u> </u>
Total	149	146
	<u> </u>	<u> </u>

Their aggregate remuneration comprised:

	2022 £	2021 £
Wages and salaries	3,976,251	3,792,688
Social security costs	359,673	341,490
Pension costs	251,563	200,647
	<u> </u>	<u> </u>
	4,587,487	4,334,825
	<u> </u>	<u> </u>

6 Directors' remuneration

	2022 £	2021 £
Remuneration for qualifying services	37,769	-
Company pension contributions to defined contribution schemes	4,007	-
	<u> </u>	<u> </u>
	41,776	-
	<u> </u>	<u> </u>

7 Taxation

	2022 £	2021 £
Current tax		
UK corporation tax on profits for the current period	-	(83,907)
	<u> </u>	<u> </u>

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

7 Taxation

(Continued)

The actual charge/(credit) for the year can be reconciled to the expected charge/(credit) for the year based on the profit or loss and the standard rate of tax as follows:

	2022 £	2021 £
Profit/(loss) before taxation	356,605	(1,538,458)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	67,755	(292,307)
Tax losses and other adjustments	(67,755)	208,400
Taxation charge/(credit) for the year	-	(83,907)

8 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	Notes	2022 £	2021 £
In respect of:			
Property, plant and equipment	9	-	1,447,282
Recognised in:			
Administrative expenses		-	1,447,282

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

9 Tangible fixed assets

	Leasehold improvements £	Plant and equipment £	Fixtures and fittings £	Total £
Cost				
At 1 January 2022	4,929,854	348,991	7,584,536	12,863,381
Additions	-	904	948,644	949,548
At 31 December 2022	4,929,854	349,895	8,533,180	13,812,929
Depreciation and impairment				
At 1 January 2022	3,036,840	233,077	2,057,099	5,327,016
Depreciation charged in the year	730,013	52,588	910,328	1,692,929
At 31 December 2022	3,766,853	285,665	2,967,427	7,019,945
Carrying amount				
At 31 December 2022	1,163,001	64,230	5,565,753	6,792,984
At 31 December 2021	1,893,014	115,914	5,527,437	7,536,365

More information on impairment movements in the year is given in note 8.

10 Stocks

	2022 £	2021 £
Finished goods and goods for resale	9,722,185	8,010,456

11 Debtors

	2022 £	2021 £
Amounts falling due within one year:		
Trade debtors	5,599,647	3,588,519
Corporation tax recoverable	109,087	64,740
Amounts owed by group undertakings	4,892,890	198,853
Other debtors	2,001,811	60,537
Prepayments and accrued income	819,807	711,844
	13,423,242	4,624,493
Amounts falling due after more than one year:		
Other debtors	616,836	930,385
Total debtors	14,040,078	5,554,878

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

12 Creditors: amounts falling due within one year

	2022 £	2021 £
Trade creditors	1,502,556	5,421,804
Amounts owed to group undertakings	27,940,543	15,024,498
Taxation and social security	-	668,458
Other creditors	307,014	313,244
Accruals and deferred income	607,449	1,197,150
	<u>30,357,562</u>	<u>22,625,154</u>

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

13 Creditors: amounts falling due after more than one year

	2022 £	2021 £
Other creditors	<u>646,956</u>	<u>515,478</u>

14 Retirement benefit schemes

	2022 £	2021 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	<u>251,563</u>	<u>200,647</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

15 Cash (absorbed by)/generated from operations

	2022 £	2021 £
Profit/(loss) for the year after tax	356,605	(1,454,551)
Adjustments for:		
Taxation charged/(credited)	-	(83,907)
Depreciation and impairment of tangible fixed assets	1,692,929	3,110,959
Movements in working capital:		
Increase in stocks	(1,711,729)	(2,901,900)
Increase in debtors	(8,440,853)	(688,383)
Increase in creditors	7,863,886	5,506,305
Cash (absorbed by)/generated from operations	<u>(239,162)</u>	<u>3,488,523</u>

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

16 Analysis of changes in net funds

	1 January 2022	Cash flows	31 December 2022
	£	£	£
Cash at bank and in hand	2,607,269	(1,233,057)	1,374,212

17 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2022	2021
	£	£
Within one year	2,022,756	2,013,129
Between two and five years	7,360,000	7,542,756
In over five years	3,282,110	5,122,110
	12,664,866	14,677,995

18 Share capital

	2022	2021	2022	2021
	Number	Number	£	£
Ordinary share capital Issued and fully paid				
Ordinary shares of £1 each	1	1	1	1

19 Related party transactions

During the year, the company purchased £5,595,090 (2021: £8,714,369) of inventory (net of finished goods transfer pricing adjustment) from Morphe LLC, its parent company.

At the year end, the net amount due to Morphe LLC and other group Companies was £23,047,653 (2021: £14,825,645).

20 Ultimate controlling party

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

The ultimate parent undertaking and the largest group to consolidate these financial statements was Forma Brand Holdings, LLC. (formerly known as Morphe Holdings LLC).

Post year end, the ultimate parent company, Forma Brand Holdings LLC was purchased by Jefferies Financial Group Inc via a Debt to Equity Swap.

On 7 April 2023, Morphe Cosmetics Limited converted £9,242,942 of intercompany debt into 1 Ordinary Share to a new intermediate parent company, Beauty Brands Acquisition (UK) Limited.

The overall controlling party from this date was Jefferies Financial Group Inc.

MORPHE COSMETICS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

21 Post balance sheet events

Post year end, the ultimate parent company, Forma Brand Holdings LLC was purchased by Jefferies Financial Group Inc via a Debt to Equity Swap.

On 7 April 2023, Morphe Cosmetics Limited converted £9,242,942 of intercompany debt into 1 Ordinary Share to a new intermediate parent company, Beauty Brands Acquisition (UK) Limited.

The overall controlling party from this date was Jefferies Financial Group Inc.

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