

# **Lush Retail Limited**

## **Directors' report and financial statements**

Registered number 03084750

30 June 2016



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## Strategic Report

### For the year ended 30 June 2016

The directors present their Strategic Report for Lush Retail Limited ("the Company") for the year ended 30 June 2016.

#### Principal Activities

The Company's principal activity is the retail of fresh handmade cosmetics through a network of shops in the United Kingdom and Web platform.

#### Review of Business

	2016	2015	Movement
	£m	£m	£m
Turnover	124.9	95.1	+29.8
Operating profit	8.2	6.8	+1.4

For the year ended 30 June 2016, the Company has presented its results under FRS 102. The date of transition to FRS 102 was 1 July 2014. The effects of this transition are detailed in Note 21.

2016 was another landmark year for the Company with total sales surpassing £100m for the first time. Total sales of £124.9m represent sales growth of +31.3% reflecting continued like for like ("LFL") growth in the shops of 23.4% and 44.5% growth in our Digital offering, supplemented by the first full year of our Oxford St store and 3 relocations in major shopping centres.

Our continued LFL growth in the stores now represents over 100% compound growth over 3 years and was assisted in the year just ended by the phased roll-out of a selection of our Oxford St product range in the rest of our portfolio. Whilst we didn't open any new shops in the year there were 3 major relocations in the Lakeside, Manchester Arndale and Meadowhall shopping centres where we significantly upsized our existing stores.

Whilst our operating profit has increased by £1.4m to £8.2m, our margin percentage has dropped by 0.6%. We have seen leverage in some cost categories, most notably premises costs, but these have been outweighed by an increase in our cost of goods % (the Oxford St products are more expensive than our existing ranges) and staff costs, where managing a store the size of Oxford St has understandably been a learning curve in its first full year of trading. We were pleased to continue to pay a rate above the government's National Living Wage to our staff during the year and have taken this a step further in the new financial year (refer to Directors' Report for more detail).

## Strategic Report (continued)

### Key Performance Indicators (KPIs)

The Company uses several KPIs to monitor the performance of the business, the main indicators being our turnover and operating profit which are stated in the table on page 1. In addition we also monitor the following indicators:

Like for like sales (LFL) - this is monitored on a shop basis and also from a total company perspective. As mentioned above the LFL growth in the year was +23.4% across all shops.

The LFL sales measures per shop are broken down further into 'Business Drivers', the main drivers being Visitor numbers, Customer conversion% (i.e. the rate at which our visitors are converted into sales) and Average sale per transaction.

We also place great emphasis on the 'Candy shop' mystery shop visits and results which can range from a 1\* rating to 5\*, with 5\* being the best rating. These visits are carried out by a central team employed by Lush Retail Limited's parent company, Lush Limited, and are also carried out consistently across shops worldwide.

### Strategy and Future outlook

Sales in the first 6 months of the new financial year have continued the positive trend with LFL of +14.5% being net of +13.0% in the shops and +27.1% in our Digital sales.

Our plans for the new financial year and beyond include further strategic relocations as we continue our focus on moving to bigger, better spaces in locations where our sales are capped by insufficient and restricted sales space. The pipeline of larger properties for this year and beyond is taking shape as landlords and developers are engaged and excited by the current look of the stores and performance of the business.

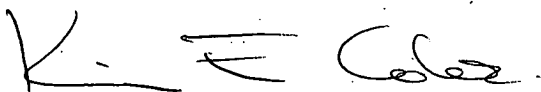
### Principal Risks and Uncertainties

The management of the business and execution of the Company's strategy are subject to risks as with any large undertaking in a competitive market.

Economic climate – Whilst we remain alert to any downturn in the economy and consumer sentiment, our performance in the year once again illustrates that the uniqueness of our products continues to distinguish us from the rest of the High Street. There has been no noticeable post Brexit impact on our sales.

Property Estate and Costs – The Business Rates revaluation which will come into effect on the 1st April 2017 and is based on rental values as at 1st April 2015 creates uncertainty, and will see some large increases within London, however this should be offset by more realistic rateable values – and hence rates payable – across the rest of England, Scotland and Wales. Rents are showing signs of increasing, not just within the micro-climate that is London, as high street and shopping centre vacancies reduce. This could impact the larger store format that we are rolling out as we must try not to sacrifice profit on increased sales purely due to elevated fixed property costs.

The Strategic Report was approved by the Board of Directors on 3 March 2017 and signed on its behalf by:



K Coles  
Director

## Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2016.

The Company is an 86.98% owned subsidiary of Lush Ltd and is included in the consolidated financial statements of Lush Cosmetics Limited which are publically available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under section 400 of the Companies Act 2006.

### Results and dividends

There was a financial profit for the year amounting to £6,299,000 (2015: £5,272,000). No dividends were proposed or paid (2015: Nil).

### Future Developments

In 2016, as indicated in the Strategic report, the Company will continue to focus on strategic relocations in the 2017 financial year.

### Financial Risk Management

The Company's operations expose it to a variety of financial risks, including the following:

#### *Price risk*

The products purchased for resale are supplied from Lush Manufacturing Limited, a fellow subsidiary undertaking, and the price is calculated using a cost plus model.

#### *Liquidity and interest rate risk*

In order to manage the liquidity and cash flow risks, the Company prepares monthly reports to ensure that sufficient funds are available to support the working capital needs and capital requirements as planned. The Company has no material exposure to interest rate risk as borrowings are held in the parent company.

#### *Exchange risk*

Our exposure to foreign exchange fluctuations is limited as all of our sales and most of our purchases are Sterling denominated. No hedging instruments have been used by the Company.

#### *Liability Risk*

The Company is included on the Lush Cosmetics Group insurance policy which includes the usual commercial insurance policies for a business of this type.

### Directors and directors' interests

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

M Constantine  
K Coles  
P Wheatley

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

### Employment Policies and Corporate Social Responsibility

The Company has a policy of communicating openly to employees and provides information about the business's performance on an ongoing basis. Our regular International meetings are great forums for clearly communicating our values, our buying stories, our innovation and our charitable giving stories as well as our financial results.

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

### **Employment Policies and Corporate Social Responsibility (continued)**

The training and development of employees to ensure their involvement in the Company's business is regularly reviewed and the directors are committed to encouraging greater involvement for all employees. Formal and informal briefing of employees takes place and we hope that our great training programmes build upon this by bringing staff together to again learn formally and informally from great trainers and from each other. We also work hard to try to ensure that the messages from our central training and communication meetings are taken back and reach all store, digital and support staff.

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

The Company has been working towards a business model that enables us to pay a fair wage across all levels, to share the rewards of our success and in turn to attract and retain the highest calibre of staff to run our shops. To this end we are very happy to have announced that we will pay the Living Wage as set by the Living Wage Foundation for all UK shop staff from April 2017. The Living Wage is calculated by an independent research panel which determines the minimum hourly rate required to be able to afford a decent standard of living. This means that irrespective of age we will be paying our shop staff a minimum of 95 pence above the government's National Living Wage and £1.40 above the government's Minimum Wage. We will also be increasing maternity and paternity pay and introducing childcare funding benefits to enable more parents to return to full-time work after having children.

No staff are employed on zero hour contracts, holidays are accrued each month at the higher of either contracted or actual hours worked and all staff are entitled to take their birthdays off (where these fall on a working day).

We also hope that our great training and positive attitude towards internal promotion encourages staff to take on more responsibility and to progress through the business.

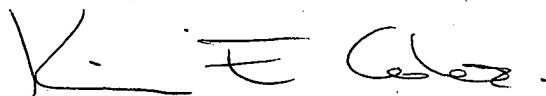
### **Statement of disclosure of information to auditors**

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

### **Independent auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board



K Coles  
Director

3 March 2017

29 High Street  
Poole  
BH15 1AB

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* (FRS 102), 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;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## ***Independent auditors' report to the members of Lush Retail Limited***

### **Report on the financial statements**

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#### **Our opinion**

In our opinion, Lush Retail Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2016 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.

#### **What we have audited**

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 30 June 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes of equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion 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.

### **Other matters on which we are required to report by exception**

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#### **Adequacy of accounting records and information and explanations received**

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, 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



## ***Independent auditors' report to the members of Lush Retail Limited (continued)***

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

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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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#### **What an audit of financial statements involves**

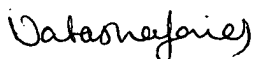
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Natasha Jones (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
5 March 2017

**Profit and loss account and statement of comprehensive income**  
*for the year ended 30 June 2016*

	<i>Note</i>	<b>2016</b> <b>£000</b>	<b>Restated</b> <b>2015</b> <b>£000</b>
<b>Turnover</b>	2	124,917	95,131
Cost of sales		(46,483)	(32,575)
<b>Gross profit</b>		<b>78,434</b>	<b>62,556</b>
Operating expenses		(70,243)	(55,767)
<b>Operating profit</b>	3	<b>8,191</b>	<b>6,789</b>
Interest receivable and similar income	6	15	42
<b>Profit on ordinary activities before taxation</b>		<b>8,206</b>	<b>6,831</b>
Tax on profit on ordinary activities	7	(1,907)	(1,559)
<b>Profit for the financial year</b>		<b>6,299</b>	<b>5,272</b>
Other comprehensive income		-	-
<b>Profit and total comprehensive income for the year</b>		<b>6,299</b>	<b>5,272</b>

All results relate to continuing activities.

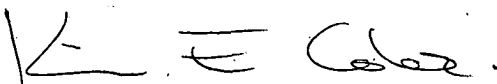
A statement of changes in equity is given on page 10.

See note 1 (u) for details on restatement

**Balance sheet**  
*As at 30 June 2016*

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	8	446	644
Tangible assets	9	7,524	6,636
Investments	10	-	-
		<u>7,970</u>	<u>7,280</u>
<b>Current assets</b>			
Stocks	11	1,756	1,344
Debtors: amounts falling due within one year	12	44,322	32,126
Cash at bank and in hand		1,143	1,290
		<u>47,221</u>	<u>34,760</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(40,840)</u>	<u>(34,062)</u>
<b>Net current assets</b>		<u>6,381</u>	<u>698</u>
<b>Total assets less current liabilities</b>		<u>14,351</u>	<u>7,978</u>
<b>Provisions for liabilities</b>	15	<u>(900)</u>	<u>(826)</u>
<b>Net assets</b>		<u>13,451</u>	<u>7,152</u>
<b>Capital and reserves</b>			
Called up share capital	16	9	9
Share premium account		767	767
Capital redemption reserve		1	1
Capital reserve		12,000	12,000
Retained earnings / (losses)		674	(5,625)
<b>Total equity</b>		<u>13,451</u>	<u>7,152</u>

These financial statements on pages 8 to 28 were approved by the Board of Directors on 3 March 2017 and signed on its behalf by:

  
Mrs K Coles  
Director

**Lush Retail Limited**  
**Registered Number - 03084750**

**Statement of changes in equity**  
*for the year ended 30 June 2016*

	Called up share capital	Share premium account	Capital redemption reserve	Capital reserve	Retained earnings / (losses)	Total equity
	£000	£000	£000	£000	£000	£000
At 1 July 2014	9	767	1	12,000	(10,897)	1,880
Profit and total comprehensive income for the financial year	-	-	-	-	5,272	5,272
<b>At 30 June 2015</b>	<b>9</b>	<b>767</b>	<b>1</b>	<b>12,000</b>	<b>(5,625)</b>	<b>7,152</b>
Profit and total comprehensive income for the financial year	-	-	-	-	6,299	6,299
<b>At 30 June 2016</b>	<b>9</b>	<b>767</b>	<b>1</b>	<b>12,000</b>	<b>674</b>	<b>13,451</b>

**Other reserves**

**Capital redemption reserve**

The capital redemption reserve consists of the nominal value of the Company's shares that were purchased by the parent company in 2000. These shares were cancelled immediately on purchase.

**Capital reserve**

The capital reserve arose as a result of a capital contribution made to the Company by its immediate parent company, Lush Limited, in 2013 in order to settle an intercompany liability with Lush Ltd.

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

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

#### **General information**

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in note 22.

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

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

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

The financial statements have been prepared on a going concern basis, under the historical cost accounting rules, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The Company is a subsidiary of Lush Ltd and of its ultimate parent, Lush Cosmetics Limited, and the results of the Company are included in the consolidated financial statements of Lush Cosmetics Limited which are publically available. The Company is therefore exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. These financial statements are the Company's separate financial statements.

The preparation of financial statements requires the use of certain critical accounting estimates, as disclosed in Note 1 (t). Where applicable management have used its judgement in the process of applying the Company's accounting policies.

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

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

#### **d) Exemptions for qualifying entities under FRS 102**

The Company is a qualifying entity for the purpose of FRS 102. FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- i) From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, available in the consolidated financial statements of Lush Cosmetics Limited, includes the Company's cash flows.
- ii) From disclosing the Company key management personnel compensation, as required by FRS 102, paragraph 33.7.
- iii) From preparing certain financial instrument disclosures, as the equivalent disclosures are included in the consolidated financial statements of Lush Cosmetics Limited.

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

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

#### **e) Foreign currency**

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

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

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

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or an approximation thereof.

Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account within administrative expenses. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

#### **f) Revenue recognition**

##### ***Sale of goods and services***

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns and discounts and value added taxes. Turnover is derived from the sale of cosmetic products and spa treatments to customers through our retail and digital outlets.

Sales of cosmetic products made through retail outlets are recognised on sale to the customer, which is considered point of delivery. Retail sales are usually by cash or credit card. Sales are made to customers with a right to return. Based on the historic rate of returns, management do not consider it necessary to include a provision for future returns.

Sales of cosmetic products made through the digital platform are recognised when the risks and rewards of the stock have been passed to the customer. This is considered to be on despatch of the product. Sales are made to customers with a right to return. Based on the historic rate of returns, management do not consider it necessary to include a provision for future returns.

Sales of Spa treatments are recognised at the date that the service is provided to the customer. Where vouchers for treatments are purchased in advance, the revenue is deferred until the treatment is performed.

Gift cards are also sold within retail outlets and online, the turnover for which is deferred until the goods or services are delivered to the customer. For unredeemed gift cards and vouchers, management use historical experience to identify those items that should be released to the profit and loss account during the financial period.

#### **g) Employee benefits**

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

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

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

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

The Company operates a defined contribution plan 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 to the plans at the balance sheet date are shown in accruals in the balance sheet. The assets of the schemes are held separately from those of the Company in an independently administered fund.

## Notes to the financial statements (continued)

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

#### h) Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

##### *Current tax*

The current tax charge is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws in the UK that have been enacted, or substantively enacted, by the year end.

##### *Deferred tax*

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

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

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

#### i) Intangible assets

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

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

Costs associated with maintaining computer software and digital offerings are recognised as an expense as incurred. Development costs that are directly attributable to the design and production of identifiable software and websites / mobile applications are recognised as intangible assets when the following criteria are met.

- It is probable that the Company will obtain future economic benefits from the asset.
- The project is technically feasible and the Company intends to complete and use the asset.
- Adequate technical, financial and other resources to complete development are available.
- The cost / value of the asset can be reliably measured.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### j) Tangible fixed assets

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

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

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

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

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

#### **j) Tangible fixed assets (continued)**

##### ***Subsequent additions***

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

Repairs, maintenance and inspection costs are expensed as incurred.

##### ***Assets in the course of construction***

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

##### ***Derecognition***

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

#### **k) Leased assets**

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

##### ***Operating leased assets***

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

##### ***Lease incentives***

Rent free periods and lease inducements receivable on entering an operating lease are recognised on the balance sheet and released to the profit and loss account on a straight-line basis over the lease term. Capital contributions from landlords are reflected as lease incentives in the same way.

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 July 2014) and continues to credit such lease incentives to the profit and loss account over the period to the earlier of the next break clause and the end of the original lease term.

##### ***Landlord contributions - reclassification***

Contributions received from landlords at the commencement of the lease are recognised within other creditors and released to the profit and loss account on a straight-line basis over the lease term. The accounting for landlord contributions has been modified in the current year. Prior to this set of financial statements, the carrying value of the landlord contributions had been recorded within fixed assets. An adjustment has been made to the balance sheet for the year ended 30 June 2016 to reclassify landlord contributions of £448,000 from tangible fixed assets to other creditors.

#### **l) Impairment of non-financial assets**

At each balance sheet date non-financial assets not carried at fair value are reviewed for impairment to identify when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the recoverable amount of the asset is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax cash flows as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.



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

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

#### **l) Impairment of non-financial assets (continued)**

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. If an impairment loss is subsequently reversed, the carrying value of the asset is increased to the revised estimate of its carrying value, but only to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the profit and loss account.

#### **m) Stocks**

Stock is stated at the lower of cost and net realisable value (estimated selling price less costs to sell). Stock is recognised as an expense in the period in which the related revenue is recognised.

In determining the cost of raw materials, consumables and goods purchased for resale, the cost is determined on the first-in, first-out (FIFO) method in the first instance. Cost includes the purchase price, including taxes and duties.

Stocks are regularly assessed for impairment, where the net realisable value is lower than the carrying value of the stock. If an item of stock is impaired, the stock is reduced to its net realisable value, and an impairment provision recognised in the profit and loss account.

#### **n) Property deposits**

Property deposits are paid to landlords on inception of the lease where applicable and are recorded in the balance sheet at the lower of cost and net realisable value. No discounting is applied to the carrying value of the deposits.

#### **o) Cash at bank and in hand**

Cash comprises cash in hand and deposits held at call with banks. Bank overdrafts, if any, are shown within borrowings in current liabilities.

#### **p) Provisions and contingencies**

##### **Provisions**

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

##### **Contingencies**

Contingent assets are not recognised in the balance sheet, but are disclosed in the financial statements when an inflow of economic benefits is considered probable.

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

#### **q) Financial instruments**

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

##### **Financial assets**

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

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

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

#### q) Financial instruments *(continued)*

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

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

#### *Financial liabilities*

Basic financial liabilities, including trade creditors, amounts owed to group undertakings and other related parties, other creditors and loans from fellow group companies 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. Such liabilities are subsequently carried at amortised cost using the effective interest method which, for assets falling due within one year, is likely to be the transaction price less any impairment.

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

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

#### r) Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

#### s) Royalty expense

The Company is charged a royalty for the use of Retail Intellectual Property ("IP") by Lush Ltd, which holds the exclusive licence to exploit the Lush Brand. Retail IP refers to the knowledge needed to open and operate a Lush store and includes branding, store layout and training. The royalty is invoiced on a quarterly basis and is based on a percentage of sales of finished goods. The royalties are recognised on an accruals basis.

#### t) Key accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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;

##### i) *Impairment of tangible assets (see note 9)*

The Company considers whether the carrying value of intangible and tangible fixed assets are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the future cash flows from the relevant CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

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

Provisions have been made in respect of future dilapidation costs and onerous contracts. These have required management's best estimate of costs that will be incurred based on contractual requirements and external valuations. No discounting has been applied to the calculation of these provisions.

#### u) Prior year restatement

During the year, the directors have re-evaluated the classification of costs on the face of the profit and loss account in the financial statements. As a result, certain operational costs that have previously been recorded within cost of sales have been reclassified as operating expenses, thus increasing the restated gross margin result from £16,779,000 to £62,556,000. There is no impact upon the profit and total comprehensive income for the financial year.

## Notes to the financial statements (continued)

### 2 Turnover

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

	2016 £000	2015 £000
<i>Turnover by business segment</i>		
Retail sales	110,640	85,305
Digital sales	14,277	9,826
	<hr/>	<hr/>
	124,917	95,131
	<hr/>	<hr/>

All retail sales are made within the United Kingdom.

	2016 £000	2015 £000
<i>Digital sales by geographical destination</i>		
United Kingdom	10,688	6,942
Europe	738	707
Americas	2,586	1,374
Asia	161	729
Rest of the world	104	74
	<hr/>	<hr/>
	14,277	9,826
	<hr/>	<hr/>

### 3 Operating profit

Operating profit is stated after charging:	2016 £000	2015 £000
Depreciation of tangible fixed assets:		
Owned	2,785	2,479
Amortisation of intangible assets	457	4
Impairment of tangible fixed assets	19	10
Loss on disposal of fixed assets	34	108
Inventory recognised as an expense	46,483	32,575
Impairment of inventory	51	-
Operating lease rentals – Plant and machinery	143	101
- Other	11,494	9,823
Net foreign exchange losses	1	4
	<hr/>	<hr/>

<i>Auditors' remuneration:</i>	2016 £000	2015 £000
Audit of these financial statements	32	42
Other services pursuant to legislation	12	9
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 4 Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments	593	497

The remuneration figure above relates to two of the directors, which is paid by a fellow group company, Lush Ltd. Remuneration for the remaining director is not disclosed above as their services in respect of the Company are considered incidental to their group roles.

The Company has made payments of £nil (2015: £nil) on behalf of the directors to the company's defined contribution pension scheme.

The emoluments of the highest paid director were £298,000 (2015: £249,000). The Company has made no payments to the company's defined contribution pension scheme on behalf of the highest paid director (2015: £nil) and no contributions have been made to money purchase schemes.

### 5 Staff numbers and costs

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

	Number of employees	
	2016	2015
Sales	1,355	1,025
Digital	113	56
Administration	48	36
	<u>1,516</u>	<u>1,117</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	33,110	24,954
Social security costs	1,763	1,515
Other pension costs	350	228
	<u>35,223</u>	<u>26,697</u>

### 6 Interest receivable and similar income

	2016 £000	2015 £000
Other interest income	15	42
	<u>15</u>	<u>42</u>

## Notes to the financial statements (continued)

### 7 Tax on profit on ordinary activities

Analysis of charge in year	2016 £000	2015 £000
<b>Current Tax</b>		
<i>UK current tax</i>		
UK current tax on income for the year	1,916	1,539
Adjustments in respect of prior periods	16	8
	<hr/>	<hr/>
Total current tax	1,932	1,547
<b>Deferred tax</b>		
Current year movement in timing differences	(72)	28
Impact of change in tax rate	-	(1)
Adjustments in respect of prior periods	47	(15)
	<hr/>	<hr/>
Total deferred tax	(25)	12
	<hr/>	<hr/>
Tax on profit on ordinary activities	1,907	1,559
	<hr/>	<hr/>

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

The tax charge for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 20.75%). The differences are explained below.

	2016 £000	2015 £000
Profit on ordinary activities before taxation	8,206	6,831
	<hr/>	<hr/>
Current tax at 20% (2015: 20.75%)	1,641	1,417
<i>Effects of:</i>		
Expenses not deductible for tax purposes	203	150
Remeasurement of deferred tax – change in UK tax rate	-	(1)
Adjustments in respect of prior periods	63	(7)
	<hr/>	<hr/>
Tax charge for the year (see above)	1,907	1,559
	<hr/>	<hr/>

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

### 8 Intangible assets

	Software and website costs £000
<i>Cost</i>	
At 1 July 2015	1,641
Additions	259
	<hr/>
At 30 June 2016	1,900
	<hr/>
<i>Accumulated amortisation</i>	
At 1 July 2015	997
Charged in year	457
	<hr/>
At 30 June 2016	1,454
	<hr/>
<i>Net book value</i>	
At 30 June 2016	446
	<hr/>
At 30 June 2015	644
	<hr/>

## Notes to the financial statements (continued)

### 9 Tangible assets

	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>			
At 1 July 2015	23,823	1,594	25,417
Additions	2,258	1,021	3,279
Disposals	(522)	(28)	(550)
Reclassification (see note 1 (k))	635	-	635
<b>At 30 June 2016</b>	<b>26,194</b>	<b>2,587</b>	<b>28,781</b>
<b>Accumulated depreciation</b>			
At 1 July 2015	17,462	1,319	18,781
Provided in year	2,374	411	2,785
Impairment provision	19	-	19
On disposals	(507)	(8)	(515)
Reclassification (see note 1 (k))	187	-	187
<b>At 30 June 2016</b>	<b>19,535</b>	<b>1,722</b>	<b>21,257</b>
<b>Net book value</b>			
<b>At 30 June 2016</b>	<b>6,659</b>	<b>865</b>	<b>7,524</b>
<b>At 30 June 2015</b>	<b>6,361</b>	<b>275</b>	<b>6,636</b>

During the year management conducted an impairment review of all retail stores which had made a negative retail margin in the financial reporting year. The review indicated that an impairment provision of £19,000 (2015: £10,000) was necessary.

### 10 Investments

The direct and indirect investments in companies in which the Company's interest at the year end is more than 20% are as follows:

<i>Subsidiary undertakings</i>	Country of incorporation	Principal activity	Class of share capital held
Lush Dublin Limited	Republic of Ireland	Retailer of cosmetic products	Ordinary 100%
Lush Distribution Limited	United Kingdom	Distribution of cosmetic products	Ordinary 100%

The carrying value of the investments listed above is £4 (2015: £4). The directors believe that the carrying value of the investments is supported by their underlying net assets.

## Notes to the financial statements (continued)

### 11 Stocks

	2016 £000	2015 £000
Finished goods	1,756	1,344

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

Inventories are stated after provisions for impairment of £51,000 (2015: £nil).

### 12 Debtors

	2016 £000	2015 £000
Trade debtors	30	266
Amounts owed by group undertakings	40,987	29,185
Amounts owed by associates and related parties	21	-
Other debtors	97	74
Prepayments and accrued income	2,638	2,085
Deferred tax asset (see note 13)	383	358
Rent deposits	166	158
	<u>44,322</u>	<u>32,126</u>

Trade debtors are stated after provisions for impairment of £nil (2015: £nil).

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

### 13 Deferred taxation

#### Deferred tax asset

	£000
At 1 July 2015	358
Deferred tax credited to the profit and loss account for the year	25
At 30 June 2016	<u>383</u>

	2016 £000	2015 £000
The split of the timing differences giving rise to deferred tax are as follows:		
Difference between accumulated depreciation and capital allowances	383	371
Other timing differences - employer pension contributions	(2)	(26)
FRS 102 tax adjustments	2	-
	<u>383</u>	<u>358</u>

The amount of the net reversal of deferred tax expected to occur next year is £170,000 (2015: £72,000), relating to the reversal of existing timing differences on tangible fixed assets and other timing differences.

In the Summer Budget of July 2015, the Chancellor announced legislation to reduce the rate of Corporation Tax to 19% effective from 1 April 2017, and to 18% from 1 April 2020. Deferred tax has been recognised at 20%, being the rate substantively enacted at the balance sheet date, and being the rate at which the Company considers these timing differences are likely to unwind at.

There are no unrecognised deferred tax assets as at 30 June 2016 (2015: £nil).



## Notes to the financial statements (continued)

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

	2016 £000	2015 £000
Trade creditors	787	448
Amounts owed to group undertakings	31,010	26,938
Amounts owed to associates and related parties	-	7
Corporation tax liability	474	308
Other taxation and social security	470	517
VAT creditor	1,055	1,085
Other creditors	6,273	4,234
Accruals and deferred income	771	525
	<u>40,840</u>	<u>34,062</u>

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

### 15 Provisions for liabilities

	Onerous lease provision £000	Dilapidation provision £000	Total £000
At 1 July 2015	162	664	826
Released during the year	(19)	(25)	(44)
Charged to the profit and loss account	-	118	118
	<u>143</u>	<u>757</u>	<u>900</u>
At 30 June 2016	143	757	900

#### Onerous lease provisions

The onerous lease provision of £143,000 (2015: £162,000) relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income, which is estimated to be utilised over the remaining life of the lease. Future operating losses are not provided for.

#### Dilapidations provisions

The dilapidations provision of £757,000 (2015: £664,000) relates to future expenditure that is required on termination of property leases that are within 3 years of termination and are in the name of Lush Retail Limited.

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

### 16 Called up share capital

	2016 £000	2015 £000
<b>Authorised</b>		
250,000 Ordinary shares of £1 each <i>(2015: 250,000 ordinary shares)</i>	250	250
	<hr/>	<hr/>
<b>Allotted, called up and fully paid</b>		
9,395 Ordinary shares of £1 each <i>(2015: 9,395 ordinary shares)</i>	9	9
	<hr/>	<hr/>

### 17 Commitments and contingent liabilities

a) The Company had no capital commitments at 30 June 2016 *(2015: £nil)*.

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

	<b>Land and Buildings</b>	
	2016 £000	2015 £000
Operating leases which expire:		
Within one year	10,676	10,055
In the second to fifth years inclusive	32,053	30,906
Over five years	15,216	20,357
	<hr/>	<hr/>
	57,945	61,318
	<hr/>	<hr/>

#### c) *Contingent liabilities*

The Company has guaranteed the borrowings of some of its fellow group undertakings, Lush Ltd and Lush BV. The guarantee has been secured by way of fixed and floating charges over the assets of the Company. The amount of borrowings outstanding at 30 June 2016 was £2,321,000 *(2015: £nil)*.

### 18 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £350,000 *(2015: £228,000)*. There was £95,000 of outstanding contributions at the end of the financial year *(2015: £69,000)*.

## Notes to the financial statements (continued)

### 19 Related party disclosures

During the year, the Company paid rent on a property jointly owned by Mr M Constantine and Mrs M Constantine, amounting to £17,000 (2015: £17,000). Mr M Constantine is a director of this Company.

Mrs M Constantine is a director of the immediate parent undertaking, Lush Ltd and the ultimate parent undertaking, Lush Cosmetics Limited, which indirectly owns 86.98% of this Company's issued share capital.

	Purchases	Purchases	Royalties	Royalties	Other	Other	Closing	Closing
	2016	2015	paid	paid	recharges	recharges	Cr/(Dr)	Cr/(Dr)
	£000	£000	£000	£000	£000	£000	balance	balance
							2016	2015
							£000	£000
Lush Manufacturing Limited	45,366	31,066	-	-	3,498	1,262	30,986	26,929
Lush Ltd	23	31	5,038	3,799	1,787	820	(40,838)	(29,168)
Lush Dublin Limited	-	-	-	-	(139)	(118)	(149)	(17)
Lush Distribution Limited	-	-	-	-	155	127	24	9
Lush US Inc	-	-	-	-	-	-	-	7
Cosmetic Warriors Limited	-	-	-	-	(17)	7	-	-
ECC Records Limited	-	-	-	-	1	4	-	-

Lush Manufacturing Limited is a related party by virtue of it being a 100% subsidiary of Lush Limited, which holds 86.98% of the ordinary share capital of this Company.

Recharges to Lush Dublin Limited are in respect of shop support services provided by Lush Retail Limited on behalf of Lush Dublin Limited. Recharges from other related parties are largely in respect of digital fulfilment, delivery and distribution services provided on behalf of Lush Retail Limited and rental costs incurred on buildings used by Lush Retail Limited.

### 20 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The immediate parent undertaking is Lush Ltd incorporated in England and Wales.

The ultimate parent undertaking and controlling party is Lush Cosmetics Limited incorporated in England and Wales.

Lush Cosmetics Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of this company are available to the public and may be obtained from 29 High Street, Poole, Dorset, BH15 1AB.

## Notes to the financial statements (continued)

### 21 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 30 June 2015 and the total equity as at 1 July 2014 and 30 June 2015 between UK GAAP as previously reported and FRS 102.

#### a) Balance sheet

	Note	At 1 July 2014			At 30 June 2015		
		As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
<b>Fixed assets</b>							
Intangible assets	C	-	202	202	-	644	644
Tangible assets	C, D	4,734	(248)	4,486	7,322	(686)	6,636
Investments		-	-	-	-	-	-
		4,734	(46)	4,688	7,322	(42)	7,280
<b>Current assets</b>							
Stocks		1,463	-	1,463	1,344	-	1,344
Debtors: amounts falling due within one year	B, D	30,906	46	30,952	32,071	55	32,126
Cash at bank and in hand		961	-	961	1,290	-	1,290
		33,330	46	33,376	34,705	55	34,760
<b>Creditors: amounts falling due within one year</b>	A	(35,390)	-	(35,390)	(34,000)	(62)	(34,062)
<b>Net current (liabilities)/assets</b>		(2,060)	46	(2,014)	705	(7)	698
<b>Total assets less current liabilities</b>		2,674	-	2,674	8,027	(49)	7,978
Provisions for liabilities		(794)	-	(794)	(826)	-	(826)
<b>Net assets</b>		1,880	-	1,880	7,201	(49)	7,152
<b>Capital and reserves</b>							
Called up share capital		9	-	9	9	-	9
Share premium account		767	-	767	767	-	767
Capital redemption reserve		1	-	1	1	-	1
Capital reserve		12,000	-	12,000	12,000	-	12,000
Retained losses		(10,897)	-	(10,897)	(5,576)	(49)	(5,625)
<b>Total equity</b>		1,880	-	1,880	7,201	(49)	7,152

## Notes to the financial statements (continued)

### 21 Transition to FRS 102 (continued)

#### b) Profit and loss account

		Year ended 30 June 2015		
	Note	As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
<b>Turnover</b>		95,131	-	95,131
Cost of sales ( <i>as restated – note 1(u)</i> )		(32,575)	-	(32,575)
<b>Gross profit</b>		62,556	-	62,556
Administrative expenses ( <i>as restated – note 1(u)</i> )	A	(55,705)	(62)	(55,767)
<b>Operating profit</b>		6,851	(62)	6,789
Interest receivable and similar income		42	-	42
<b>Profit on ordinary activities before taxation</b>		6,893	(62)	6,831
Tax on profit on ordinary activities	B	(1,572)	13	(1,559)
<b>Profit for the financial year</b>		5,321	(49)	5,272
Other comprehensive income		-	-	-
<b>Profit and total comprehensive income for the year</b>		5,321	(49)	5,272

## Notes to the financial statements (continued)

### 21 Transition to FRS 102 (continued)

#### c) Statement of changes in equity

		Year ended 30 June 2015		
		As previously stated £000	Effect of transition £000	FRS 102 (as restated) £000
Balance as at 1 July 2014		1,880	-	1,880
Profit for the year	A, B	5,321	(49)	5,272
<b>Total comprehensive income for the year</b>		<b>5,321</b>	<b>(49)</b>	<b>5,272</b>
Balance as at 30 June 2015		7,201	(49)	7,152

#### d) Transition notes

##### A Rent free period for operating leases

Under previous UK GAAP operating lease incentives, including rent free periods and fit out contributions, were spread over the period to the earliest break clause in the lease. FRS 102 requires that all such incentives should be spread over the lease period. The Company has taken advantage of the exemption for existing leases at the transition date to continue to recognise these leases on the same basis as previous UK GAAP. Accordingly the FRS 102 accounting policy has been applied to new operating leases entered into since 1 July 2014 and the operating lease charge has increased by £62,000 for the year to 30 June 2015, with a corresponding increase in the accrued lease liability at 30 June 2015.

##### B Deferred taxation

The impact on deferred taxation as a result of the adjustment above was to increase the deferred tax asset by £13,000 for the year ended 30 June 2015.

##### C Other balance sheet reclassifications

In addition to the transition adjustments identified above which affect profit for the financial year ended 30 June 2015, the following adjustments have arisen which have no effect on net equity or the profit and loss account but which have affected the presentation of these items on the balance sheet:

a) Computer software and website costs, with a net book value of £202,000 at 1 July 2014, has been reclassified from tangible to intangible fixed assets as required under FRS 102. This has no effect on the Company's net assets or profit for the year, except that the previous depreciation charge is now described as amortisation. The amount reclassified at 30 June 2015 was £644,000.

##### D Reclassification of lease premiums

Lease premiums are recognised on the balance sheet within prepayments and released to the profit and loss account on a straight-line basis over the lease term. Prior to this set of financial statements, the original value of the lease premiums had been recorded within fixed assets and released to the profit and loss statement over the life of the lease as depreciation. The adjustment at the date of transition was £46,000, whilst the adjustment made to the balance sheet for the year ended 2015 was £42,000. There was no impact on the profit and loss statement as the period of release has not been altered.