Lush Retail Limited

Annual report and financial statements

Registered number 03084750

30 June 2020

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Strategic Report
For the year ended 30 June 2020

The directors present their Strategic Report for Lush Retail Limited ("the Company") for the year ended 30 June 2020.

Principal Activities

The Company's principal activity is the retail of fresh handmade cosmetics through a network of shops in the United Kingdom and our web platform, as part of the Lush Cosmetics Group (the "Group", being Lush Cosmetics Limited and its subsidiaries, associates and joint ventures).

Review of Business

	2020	2019	Movement
	£m	£m	£m
Turnover	131.4	153.7	(22.3)
Operating (loss)/profit	(4.3)	3.5	(7.8)

Turnover in the year to 30 June 2020 was £131.4m which represents a 14.5% decrease on the prior year. The headline news for the year (and beyond) was the Covid-19 pandemic which started to impact our business in late February 2020. From the 23 March we entered the first national lockdown and that involved the closure of our entire UK store portfolio for nearly three months, until we were allowed to tentatively reopen on the 15th June in a kiosk only trading format. During this time we also put a temporary pause on new online orders whilst we made the necessary changes to our digital fulfilment operation in order to make it covid safe and capable of dealing with the significantly increased order volumes. Upon reopening on 17 April, website orders surged and for the three months to the end of June, online sales were £9.8m and +193% higher than the previous year; total Company sales in this period were 44% down on the previous year with the shops being closed for the majority of the quarter.

The full year operating loss was -£4.3m and represents a £7.8m decrease on the prior year. Included within this is £8.4m of shop impairments and a further £1.4m of onerous lease provisions, which are largely the result of the uncertainty arising from the pandemic and its impact on expected future trading. Excluding these adjustments, the underlying trading profit is broadly flat with the lost gross margin from reduced sales being offset by savings in staff costs, premises costs and general operating expenditure. In total we received £7.4m of furlough relief for the closure period as well as benefiting from £2.2m in rates relief and retail and hospitality grants for the three months April to June.

Strategy and Future outlook

The new financial year has brought with it further disruption with a second national lockdown in November, followed by a third full lockdown in January to March 2021. At the time of writing in June 2021, our full year sales forecast stands at £124.0m which is 5% down on financial year ended 30th June 2020 and 19% down on financial year ended 30th June 2019. The overarching strategy for the new financial year has been to drive sales growth across both channels in order to get back to pre-pandemic levels whilst maintaining profitability by leveraging Covid-19 learnings and driving efficiencies in all key cost categories.

With the pandemic accelerating the shift of customers onto the website and social distancing rules bringing with it inevitable reductions in footfall, the focus for the physical retail business is to continue providing a 5 star customer experience despite the challenges that come with the 'new normal' we may face. By creating an in person shopping experience worth coming to the high street for, we are ensuring we make the most of the footfall we have by focusing on maximising average sale and conversion. Several initiatives have been implemented to drive sales and raise brand awareness, whilst having the customer experience central to these strategies. These include pre-made samples, ensuring customers leave with tailored products to try at home, improving the accuracy of our shop information on google and operating call and collect services when shops have been closed, increasing the number of channels available for our customers to shop with us.

In order to maximise sales but also maintain profit, shop managers are using the learnings gained throughout the pandemic to find the perfect balance of efficient staffing that also maximises our sales potential and provides the best experience for the customer.

Strategic Report

Strategy and Future outlook *(continued)*

Digital has welcomed the additional customers brought by the pandemic, seeing a significant increase in both website traffic and conversion rate. To capitalise on this, we have introduced a number of new initiatives to drive sales and improve the customer journey. These include free shipping over a threshold spend, e-gift cards, a new website and app with improved search features. In addition to this we have invested in 'Paid Search' in order to protect the brand and drive traffic to our website as well as a collaboration with ASOS to improve brand awareness by leveraging their significant audience.

Earlier in the year we realised we needed to change our fulfilment operations not only to allow for social distancing but to be able to scale to the huge growth in order volumes we were receiving online. In April 2020, the team reworked our warehouse space and in May 2020 we introduced conveyors on our picking lines. Further refinements to process improvements have been made throughout the year, and we are now in the process of investing in a joint fulfilment and gift packaging operation that will maximise efficiencies further as well as allowing for the flexible sharing of staff between the production and fulfilment operations.

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 above. In addition we also monitor the following indicators:

LFL (like for like) - this is monitored on a shop basis, a total retail and total digital basis and also from a total Company perspective. It is a sales growth measure which excludes the impact of new or closed stores.

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 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 Ltd, and are also carried out consistently across shops worldwide.

Employment Policies and Corporate Social Responsibility

We believe that the same fair trade commitment we make to our suppliers should also be made to our staff; that fair trade should not just be for growers and small scale farmers but also for the employees of multi-national corporations as life choices become harder globally for those who work in the lower pay sectors. At Lush, we are committed to a fair wage at all levels of the business and fully support the UK Living Wage Foundation's approach of a hard day's work deserving a fair day's pay. We had been paying all permanent UK staff at or above the "real" hourly Living Wage rate since April 2017. This rate, set by the independent Living Wage Foundation, is +59p higher than the Government's "over-23" National Living Wage rate.

We are grateful to the Living Wage Foundation who have allowed businesses to pause their accreditation during the Covid-19 pandemic which has had a significant impact on us all. It was a priority for us to review our accreditation in January 2021, once we had traded through our ever important Christmas period. Despite shop closures, and continued uncertainty around future trading conditions, we determined that as one of our principals is to pay a real Living Wage, it was the appropriate time to review our minimum hourly rate. From March 2021, we have been fortunate enough to reinstate the Living Wage for all of our UK shop staff who were below this during our pause. This means our minimum Lush UK hourly rate for permanent staff is £9.50 per hour, irrespective of age.

Our UK parental pay policy pays 6 months' full pay and also provides childcare funding to enable more parents to return to work after having or adopting children. Secondary carers within our workforce also receive full pay for 4 weeks leave. In both cases our policies extend to cover those taking shared parental leave.

Whilst these commitments have an impact on our profitability we believe paying our staff fairly is the right thing to do and take a long-term view that anticipates a return on these investment over the years to come.

Covid-19 Impact on employees

As reported in these financial statements the Company has received £7.4m of employee related government support in the year ended 30 June 2020 and have continued to draw on these schemes in the following financial year as temporary closures and lockdowns have continued.

Strategic report *(continued)*

Employment Policies and Corporate Social Responsibility *(continued)*

Whilst this government support has helped, we have been focusing on making sure the jobs we have provide proper, gainful employment. The challenges brought by the pandemic, following on as it did from two very tough trading years, accelerated the review and reorganisation of our staff levels and refocused us on making sure our teams were lean, resilient and dynamic enough to weather any challenges the future may hold. As a Company built on the passion and enthusiasm of its people, the need to reorganise and reshape has been extremely challenging for everyone but understood as a necessary step to take.

Any redundancies have required sensitive handling to ensure a fair approach to redundant roles, as well as protecting the productivity and morale of our staff that remain in the business. This has included a thorough consideration of alternatives, meaningful consultations, fair selection and payments, plus counselling and ongoing support. Where we could not always accommodate alternatives to redundancy, we have relied on an honest, human and compassionate approach to support those going through the process.

Employee Benefit Trust

As employees of the wider Lush Group, all employees of the Company benefit from being members of the Lush Cosmetics Employee Benefit Trust (EBT). 10% of the shares in Lush Cosmetics Limited are held on behalf of our staff in the EBT. We believe the Trust which was established in 2017 will protect the prosperity of the Lush business at the same time as recognising the contribution our employees make to its success. We also envisage that the EBT will encourage employee engagement and improve communication through the business.

Diversity & Inclusion

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

Our connection with our People has always been one of growth and evolution. We have learnt from them, and they have helped us build our culture which ultimately led to our statement of All are welcome, always. This was no different following the Black Lives Matter movement in June 2020 where we recognised that if we are to stay true to our statement, we need to do better. We must create meaningful sustainable change to address the disparity between different demographic groups that we are underrepresenting in the business. We embarked on a 100 day plan across all functions and departments to launch a series of initiatives which enabled us to develop a future plan for an inclusive business where inclusive thinking is embedded in all decisions we make.

Our initial focus is Product and People;

To attract new diverse customers, we are challenging industry beauty standards by innovating our product ranges to include a product for every need. We have spent 2 years working with an expert Afro hair specialist to research and develop a range of hair products to suit the needs of Afro hair. Our range consists of 6 products and launched in the UK on the 2 December 2020, followed by a staggered global launch thereafter.

Our Inventors have developed some outstanding best selling products over the years, and have been inspired to name those products by songs, stories or relationships. We understand that words have different meanings for people with different lived experiences, and that these meanings change over time. With that in mind, we conducted a global audit of all products' names, past and present, to identify any that are considered inappropriate or offensive to certain communities and renamed them more appropriately.

With the work ongoing to diversify our products and services, we have started to address the need to create a more inclusive, supportive and progressive work environment, where all employees feel respected, included and can do their best work. We have updated our "Respect at Work" policy to include guidance on how to handle unacceptable behaviours such as microaggressions, on top of tackling discrimination, harassment and bullying. We are rolling out training to all managers across the UK business to build on their confidence in handling these behaviours in the workplace.

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.

Impact of Covid-19- This is specifically covered under the Going Concern heading on page 4.

Strategic report *(continued)*

Principal Risks and Uncertainties *(continued)*

Economic climate – As always we remain alert to any further downturn in the economy and consumer sentiment. Whilst the UK has now finally left the European Union there still remains significant business and economic disruption, which we hope will settle in the later half of 2021 due to a number of trade deals in place. We believe that our product innovation and new concepts sets us apart from the rest of the High Street and our sales performance continues to be robust during challenging times for the UK Retail sector.

Property Estate Costs – During the Covid-19 pandemic the main focus has been on agreeing permanent discounts on rents going forward and one-off discounts for the periods of closure or significantly reduced sales. We have contacted every landlord within the Company aiming to agree a payment plan whereby rent is waived during closure periods and discounted thereafter, with a mechanism proposed to repay up to 100% of the discounted element should sales return to pre-Covid levels within the period to September '21.

Given the changing face of the physical retail landscape, and also the attitudes towards us during our discussions and negotiations of the past 12 months, we have adopted a strategy whereby if we don't feel that we are being treated fairly by landlords then we will not renew leases.

The pandemic has obviously impacted high streets and shopping malls and whilst we have no plans to close a large number of shops, we are being forensic in our approach to each store and will continue to assess them on an ongoing basis to ensure that come renewal, or sooner if necessary, we are best placed to make the right decision. We will also continue to be opportunistic in our approach to new shop acquisitions, and we can see opportunities for further expansion provided the location, the deal and the time is right.

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

Going Concern

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

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its working capital requirements for that period. The forecasts assume the continued cash pooling arrangement between the Company and fellow UK subsidiary undertakings Lush Ltd, Lush Manufacturing Limited and Lush Dublin Limited whereby cash surpluses are remitted to Lush Ltd to optimise Group cash management and cash deficits are similarly covered by Lush Ltd.

The Company's immediate parent company, Lush Ltd., has indicated its intention to continue to provide financial and other support to the Company for at least for the next twelve months from the date of signing these accounts to enable it to meet its financial liabilities as they fall due and continue to trade. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The directors have also reviewed sensitised forecasts for the Lush Cosmetics Group for a period of 12 months from the date of approval of these financial statements which show that while there is a funding requirement over the forecast period, it is still comfortably within the borrowing facilities that are available to the Group and there is no breach of financial covenants over this period.

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

The Strategic Report was approved by the Board of Directors on 29 June 2021 and signed on its behalf by:

K E Coles

Mrs K Coles
Director

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2020.

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 publicly 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 loss for the year after tax amounting to £3,045,000 *(2019: profit of £3,595,000).*

No dividends have been proposed or paid for the year ended 30 June 2020 *(2019: £17,000,000).* The future development of the Company has been addressed within the Strategic Report on page 1.

A total dividend of €500,000 was declared and paid by the Company's subsidiary undertaking, Lush Dublin Limited, on 11 October 2019, in respect of the year ended 30 June 2019. A further dividend of €700,000 was declared and paid by Lush Dublin Limited on 25 February 2020, in respect of the year ended 30 June 2019.

Directors and directors' interests

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

Mr M Constantine
Mrs K Coles
Mr P Wheatley

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

Section 172 Reporting Statement

Under section 172 of the Companies Act, we as directors are required to make a statement explaining how we have adhered to certain duties as members of the board and explain how we act in the best interests of the Company. We have split our statement into the relevant sections below

We as directors have acted in a way as we consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

(a) the likely consequences of any decision in the long term,

Every decision we make as a board is to preserve the longevity of the business, and ensure we are working towards our long term goals. In the recent environment we have had to make difficult decisions and met as a board regularly to discuss options and scenarios to consider the longer term consequences of everything we do. We are also part of the Lush 'secret' master plan, which has been made public so that we can be held accountable to it and it is evident that we are thinking longer term.

Lush believes in the right to make a profit, but when making major business considerations and adjustments, all aspects of Lush's core values will be discussed and kept in mind. A balanced Lush business will always try to find profit whilst upholding the core values.

(b) the interests of the company's employees,

This is covered in the relevant sections of the Strategic Report, but our people are what makes the Company what it is, and thus our employees' interests are considered at every turn.

We are very proud of the wider Employee Benefit Trust which helps empower our staff and protect their interests – the wider Lush Group has been 10% Employee owned since 2017. Along with the other shareholders of the business, the Lush EBT owns a proportion of the Lush Group and 5 trustees look after the trust on behalf of all staff. The board appreciates the contribution that every member of staff makes to the business and having all of our staff as beneficiaries of the EBT recognises their efforts and commitment in making us the Company that we are.

We do not believe that employees should be bought and sold with a business. The directors do not believe the Company should be bought or taken over by an external body, and the EBT will have a say in ensuring that this does not happen. If the current shareholders decided to sell their shares to an external buyer, resulting in a change of control, then the staff through the EBT would have the opportunity to vote against such a move.

Directors' report *(continued)*

Section 172 Reporting Statement *(continued)*

(c) the need to foster the company's business relationships with suppliers, customers and others,

We always wish to conduct our business so that all people who have contact with us, from our suppliers through to our staff and customers, benefit from their contact with Lush and have their lives enriched by it. No company is perfect, and we strive daily to get closer to the ideal vision that Lush people share. We will always want and demand more from Lush, so that our business practices match our own expectations, our staff and customer expectations and the needs of the planet.

The Company sources its products from the wider Lush Group which, for many years, has been aiming for a 100% transparent supply chain. This means often switching to direct sourcing, developing 'on the ground' relationships and co-developing growing projects. We have seen that fostering good, honest, long-term relationships with suppliers is key to ensuring good quality control of ingredients as well as making sure all sources comply with our supplier policies (People Care, Earth Care and Fair Share Policy). In light of the recent pandemic, we are further assured that strong, trusted trading relationships are key to accommodating each other's needs during financial difficulty.

Purchasing our materials in this way with our producers/suppliers also guarantees uninterrupted supply of good quality materials to make our products. We are able to ensure our suppliers understand the needs of our business and we also understand the constraints of their operations.

We believe that the customer is always right and as such if you are not happy with a Lush product, let us find a suitable alternative which will knock your socks off. We have a no quibble refund policy; if you would prefer a refund, then no problem; just bring the product and your receipt. If you are unsure of which products will be suitable for you, let us give you a consultation with samples to try. We believe our customers have the right to enjoy effective products produced without exploitation of people or planet, safe in the knowledge that all ingredients are vegetarian and that we do not test any of our products or ingredients on animals.

(d) the impact of the company's operations on the community and the environment,

Community and environment is at the heart of everything we do – we don't just want to negate our impact, put bluntly we want to make a positive difference in the world. We like to give back to the community and help where we can through Charity Pot and other charitable donations which are fully supported by all members of the board.

We feel that the way our ingredients are bought is where we can have some of the greatest impact within the business. The essence of Lush has always been to lead with life, and there is plenty of life to be preserved and regenerated - whether it be through creating social enterprises, restoring wildlife corridors or helping communities move away from the use of highly hazardous pesticides.

(e) the desirability of the company maintaining a reputation for high standards of business conduct,

As members of the board, it is imperative for us to maintain a high reputation in everything we do. When conducting business, we have put into place a number of policies in place that consider the following:

- Workers' rights – health and safety, freedom to leave, fair pay, working hours, discrimination, no child labour.
- Environment – organic, sustainability, endangered species, production emissions onto land and water, use of resources to process ingredients, no Genetic Modification.
- Animal protection – No animal testing of ingredients. Vegetarian ingredients only.
- Transport – The distance ingredients travel, minimum air freight, packaging materials used.

At Lush we have never liked to call ourselves an Ethical Company. We find the term rather a difficult concept, because it seems to us that it is used to describe companies who try not to damage people or planet with their trade practices – when surely this should not be regarded as 'ethical' but as normal 'business as usual'.

We believe that all business should be ethical, and all trade should be fair. Individual companies should not stand out simply by not being damaging or unfair. No company should be trading from an unethical position and society has a right to expect as the norm fairness and resource stewardship from the companies that supply them. We always act in a way that supports this.

Directors' report *(continued)*

Section 172 Reporting Statement *(continued)*

(f) the need to act fairly as between members of the company.

In essence, what this means is that all shareholders ('members') are treated equally with regards to access to the financial information that they are entitled to in their capacity as shareholders, no matter the size of the shareholding, whether it's 1%, 10% or 80%. The Company is part of the wider Lush Group which is a privately held, family run business and there is shareholder representation on the board, along with the EBT, and all decisions are made in the interests of the Company, taking every view into account.

Charitable contributions

The Lush Group continue to raise funds through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. 100% of the retail price of the product, less VAT, is donated to a variety of good causes.

In this financial year our UK Charity Pot sales raised £850,000 *(2019: £1,217,000)*, with a total of £935,000 being donated during the financial year *(2019: £1,237,000)*. There was also £57,000 of sales of specific campaign products *(2019: £87,000)* and £15,000 *(2019: £16,000)* proceeds from the Scottish and Wales bag tax (a charge that is retained by companies), which were donated to charitable causes during the year.

Our charitable giving focus remains on innovative, effective giving through the support of small, grassroots organisations working in the areas of environment, human rights and animal protection. We aim to support causes and organisations that are overlooked by others and also prioritise work to address the root causes of issues through campaigns, education and activism. Our support is not limited to registered charities; we also give donations to campaign groups and other organisations which are not registered with the Charity Commission.

Statement of disclosure of information to Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that 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 auditor is aware of that information.

Independent auditor

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

On behalf of the board

Mrs K Coles
Director

29 June 2021

29 High Street
Poole
Dorset
BH15 1AB

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED

Opinion

We have audited the financial statements of Lush Retail Limited ("the company") for the year ended 30 June 2020 which comprise the Statement of comprehensive income, Balance Sheet, Statement of changes in equity and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the strategic report, the directors' report and the S172 statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report, the directors' report and the S172 statement for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUSH RETAIL LIMITED

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

J Breakell

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

Date: 30 June 2021

Statement of comprehensive income
for the year ended 30 June 2020

	Note	2020 £000	2019 £000
Turnover	1	**131,382**	153,720
Cost of sales		**(45,108)**	(52,451)
Gross profit		**86,274**	101,269
Operating expenses *(including fixed asset impairment of £8,352,000)*		**(97,992)**	(97,721)
Other income	2	**7,417**	-
Operating (loss) / profit	2	**(4,301)**	3,548
Dividend income		**1,032**	717
(Loss) / profit before taxation		**(3,269)**	4,265
Tax credit / (charge)	5	**224**	(670)
(Loss) / profit and total comprehensive income for the year		**(3,045)**	3,595

All results relate to continuing activities.

Balance sheet
As at 30 June 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Intangible assets	6		**-**		27
Tangible assets	7		**10,465**		21,829
Investments	8		**-**		-
			10,465		21,856
Current assets					
Stocks	9	**2,053**		2,340	
Debtors	10/11	**17,384**		5,821	
Cash at bank and in hand		**2,031**		2,241	
		21,468		10,402	
Creditors: amounts falling due within one year	12	**(21,365)**		(19,796)	
Net current assets/(liabilities)			**103**		(9,394)
Total assets less current assets/(liabilities)			**10,568**		12,462
Provisions for liabilities	13		**(1,947)**		(796)
Net assets			**8,621**		11,666
Capital and reserves					
Called up share capital	14		**9**		9
Share premium account			**767**		767
Capital redemption reserve			**1**		1
Capital reserve			**10,889**		10,889
Retained loss			**(3,045)**		-
Total equity			**8,621**		11,666

The notes on pages 14 to 27 are an integral part of these financial statements.

These financial statements on pages 11 to 27 were approved by the Board of Directors on 29 June 2021 and signed on its behalf by:

K E Coles

Mrs K Coles
Director

Lush Retail Limited
Registered Number - 03084750

Statement of changes in equity

for the year ended 30 June 2020

	Notes	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Capital reserve £000	Retained loss £000	Total equity £000
At 1 July 2018	14	9	767	1	12,000	12,294	25,071
Profit and total comprehensive income for the year		-	-	-	-	3,595	3,595
Dividends paid		-	-	-	(1,111)	(15,889)	(17,000)
At 30 June 2019		**9**	**767**	**1**	**10,889**	**-**	**11,666**
Loss and total comprehensive income for the year		-	-	-	-	(3,045)	**(3,045)**
Dividends paid		-	-	-	-	-	-
At 30 June 2020		**9**	**767**	**1**	**10,889**	**(3,045)**	**8,621**

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 Ltd, in 2013 in order to settle an intercompany liability with Lush Ltd. This is a distributable reserve.

Notes to the financial statements

1 Segmental analysis

	2020 £000	2019 £000
Turnover by business segment		
Retail	**106,274**	133,258
Digital	**24,040**	19,070
Spa	**1,068**	1,392
	131,382	153,720

	2020 £000	2019 £000
Digital turnover by geographical destination		
United Kingdom	**21,281**	14,977
Europe	**1,178**	1,303
Americas	**1,243**	2,383
Asia	**315**	353
Rest of the world	**23**	54
	24,040	19,070

All Retail and Spa sales are generated in the United Kingdom.

Accounting Policies

Sale of goods and services

Turnover consists of amounts receivable for cosmetic products supplied and spa treatments rendered through our retail and digital outlets. Turnover is stated net of returns, discounts and value added taxes and is measured at fair value.

Sales of cosmetic products are recognised upon sale to the customer. Sales of cosmetic products made through the digital platform are recognised on despatch of the product, when it is deemed that the risks and rewards of the stock have been passed to the customer. Sales are made to customers with a right to return, however 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.

Gift cards and spa vouchers are also sold within retail outlets and online, the turnover for which is deferred until the goods or services are delivered to the customer. Based on historic experience, the portion of gift cards and spa vouchers expected to remain unredeemed are released to the profit and loss account each year.

2 Operating (loss) / profit

Operating (loss) / profit is stated after charging/(crediting):

	2020 £000	2019 £000
Depreciation of tangible assets:		
Owned *(see note 7)*	**6,474**	5,213
Amortisation of intangible assets *(see note 6)*	**40**	80
Impairment of tangible assets *(see note 7)*	**8,352**	387
Operating lease rentals – Plant and machinery	**111**	141
- Property	**15,340**	14,858
Royalties	**6,075**	7,299
Rates	**4,178**	6,147
Donations	**922**	1,234
Staff costs *(see note 4)*	**42,844**	46,168

Auditor's remuneration:	2020 £000	2019 £000
Audit of these financial statements	**43**	33
All other services	**11**	12

Notes to the financial statements *(continued)*

2 Operating (loss) / profit *(continued)*

Other income	2020 £000	2019 £000
Coronavirus Job Retention Scheme Support	**7,417**	-

Accounting Policies

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 and disclosed within operating expenses.

Cost allocation

Cost of sales represents the cost of the finished products that have been sold, wasted or demonstrated in the year. All staff, premises and other operating costs are disclosed within operating expenses.

Coronavirus Job Retention Scheme

Government income arising from Covid-19 support schemes has only been recognised through the Profit and Loss statement when there is reasonable assurance that the entities will comply with the conditions attached to the support and that the income will be received.

3 Remuneration of directors

The directors received no emoluments *(2019: £nil)* from the Company for their services to Lush Retail. One director is remunerated by a related party, whist two directors are remunerated by fellow Group companies. It is not possible to make an accurate apportionment of their emoluments in respect of each of the companies in the Group. The aggregate emoluments of the Company's directors from all Group companies were £493,000 *(2019: £438,000)* which included £1,700 *(2019: £1,000)* paid on their behalf to a defined contribution pension scheme.

The aggregate emoluments received by the highest paid director from all Group companies during the year were £247,000 *(2019: £197,000)*, which included £1,700 *(2019: £1,000)* paid on their behalf to a defined contribution pension scheme. No contributions have been made on behalf of any directors to money purchase schemes in either years.

4 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	
	2020	2019
Sales	**3,291**	3,549
Digital	**173**	120
Administration	**56**	114
	3,520	3,783

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**40,202**	43,165
Social security costs	**2,024**	2,250
Other pension costs	**618**	753
	42,844	46,168

Notes to the financial statements *(continued)*

4 Staff numbers and costs *(continued)*

Accounting Policies

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

Short term benefits

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

Defined contribution pension plans

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

Bonus arrangements

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

5 Tax on (loss) / profit

Analysis of (credit) / charge in year	**2020 £000**	2019 £000
Current tax		
UK current tax		
UK current tax on profit for the year	**1,017**	1,134
Adjustments in respect of prior periods	**107**	(195)
Total current tax charge	**1,124**	939
Deferred tax		
Current year movement in timing differences	**(1,684)**	(460)
Impact of change in tax rate	**(132)**	50
Adjustments in respect of prior periods	**468**	141
Total deferred tax credit	**(1,348)**	(269)
Total tax on (loss) / profit	**(224)**	670

Factors affecting the tax charge for the current year

The tax (credit) / charge for the year is lower *(2019: lower)* than the standard rate of corporation tax in the UK of 19% *(2019: 19%)*. The differences are explained below:

	2020 £000	2019 £000
(Loss) / profit before taxation	**(3,269)**	4,265
Current tax at 19% *(2019: 19%)*	**(621)**	810
Effects of:		
Expenses not deductible for tax purposes	**150**	-
Remeasurement of deferred tax – change in UK tax rate	**(132)**	50
Income not taxable	**(196)**	(136)
Adjustments in respect of prior periods	**575**	(54)
Total tax on (loss)/profit	**(224)**	670

Notes to the financial statements *(continued)*

5 Tax on profit *(continued)*

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

The UK deferred tax asset and liability as at 30 June 2020 was calculated at 19% (2019: 17%). An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly and increase the deferred tax asset and liability. The effect of this change cannot be quantified.

Accounting Policies

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

Current tax

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

Deferred tax

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax returns in periods that are different from those in which they are recognised in the financial statements, and are recognised only to the extent that it is probable that future taxable profits will be available for utilisation. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of tax rates and laws in the relevant countries that have been enacted, or substantively enacted, by the year end and that are expected to apply to the reversal of the timing differences. Deferred tax balances are not discounted.

6 Intangible assets

	Software £000
Cost	
At 1 July 2019	667
Additions	14
Disposals	(400)
At 30 June 2020	**281**
Accumulated amortisation	
At 1 July 2019	640
Charged in year	40
Disposals	(399)
At 30 June 2020	**281**
Net book value	
At 30 June 2020	**-**
At 30 June 2019	27

Notes to the financial statements *(continued)*

6 Intangible assets *(continued)*

Accounting Policies
Intangible assets are stated at cost less accumulated amortisation and impairment losses.
Amortisation rate
Amortisation is calculated, using the straight line method, over their estimated useful lives as follows; - Software costs => 3 years
Impairment
The assets are reviewed for impairment when there are indicators that the carrying value of the asset may not be recoverable, such as technological advancement. See note 7 for the detailed accounting policy adopted for impairment reviews.
Software
Costs associated with maintaining computer software and digital offerings are recognised as an expense as incurred.
Additions
The cost of intangible assets will be recognised as an addition in the period of acquisition. Cost includes the original purchase price, plus any direct costs of preparing the asset for its intended use. Subsequent costs are included within intangible fixed assets when recognition criteria are met. Where assets are considered replacements for existing assets, the amortisation of the replaced component is accelerated to write down to a nil net book value. When the expenditure is considered to be enhancement of an existing asset, the cost is added to the carrying value of the original asset and amortised over the newly assessed useful economic life.
Disposals
Intangible assets are derecognised on disposal or when no future economic benefits are expected. The difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included in operating expenses.

7 Tangible assets

	Leasehold improvements £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost				
At 1 July 2019	6,983	33,272	5,061	45,316
Additions	1,220	1,818	199	3,237
Disposals	-	(211)	(1,863)	(2,074)
At 30 June 2020	**8,203**	**34,879**	**3,397**	**46,479**
Accumulated depreciation				
At 1 July 2019	1,441	18,219	3,827	23,487
Charged in year	577	4,978	630	6,185
Impairment provision	-	8,352	-	8,352
Disposals	-	(151)	(1,861)	(2,012)
Reclassification	44	(44)	-	-
At 30 June 2020	**2,062**	**31.354**	**2,596**	**36,012**
Net book value				
At 30 June 2020	**6,141**	**3,525**	**801**	**10,465**
At 30 June 2019	5,542	15,053	1,234	21,829

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 was needed of £8,352,000 *(2019: £387,000)* – this increase is due to the effects of Covid-19 on trading.

Notes to the financial statements *(continued)*

7 Tangible assets *(continued)*

Accounting Policies

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

Depreciation rate

Depreciation is calculated using the straight line method to write off the asset cost over its estimated useful economic life as follows:
- Fixtures, fittings and equipment => 5 years
- Computer equipment => 3 years
- Leasehold improvements => 10 or 20 years

Impairment

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

At each balance sheet date tangible and intangible (see note 6) assets are reviewed to determine whether there is any indication of impairment. Depending on the asset's role in generating cash the review is conducted on the asset in isolation or as part of a group of assets (cash generating unit). If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the greater of fair value less costs to sell and value in use. The value in use is the sum of its expected future cash flows. Where discounting is expected to be significant a pre-tax discount rate is applied to calculate the present value of the cash flows.

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

Additions

The cost of tangible assets will be recognised as an addition in the period of acquisition. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

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.

Disposals

Tangible assets are derecognised on disposal or when no future economic benefits are expected. The difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included in operating expenses.

8 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:

Subsidiary undertakings	**Registered Address**	**Principal activity**	**Class of share capital held**
Lush Dublin Limited	116 Grafton Street, Dublin 2, Republic of Ireland	Retailer of cosmetic products	Ordinary 100%
Lush Distribution Limited	1 Market Close, Poole, Dorset, BH15 1NL, England	Distribution of cosmetic products.	Ordinary 100%

The carrying value of the investments listed above is £4 (*2019: £4)*.

Notes to the financial statements *(continued)*

9 Stocks

	2020 £000	2019 £000
Finished goods	**2,053**	2,340

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

Inventories are stated after provisions for impairment of £163,000 *(2019: £167,000)*.

Accounting Policies
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes the price paid to Lush Manufacturing Limited. Provisions are made for obsolete, excessive and out of date stock.

10 Debtors

	2020 £000	2019 £000
Trade debtors	**522**	1,657
Amounts owed by Group undertakings	**8,038**	99
Amounts owed by other related parties	**-**	17
Other debtors	**2,397**	83
Corporation tax asset	**882**	156
Deferred tax asset *(see note 11)*	**2,466**	1,118
Deposits	**90**	166
Prepayments and accrued income	**2,989**	2,525
	17,384	5,821

The deferred tax asset includes £1,856,000 *(2019: £1,118,000)* recoverable after more than one year.

Deposits include amounts totalling £90,000 *(2019: £124,000)* which are recoverable after more than one year.

Trade debtors are stated after provisions for impairment of £15,000 *(2019:£44,000)*.

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

Accounting Policies
Financial assets
Basic financial assets, including trade and other debtors, other related parties, property deposits and cash and bank balances are initially recognised at transaction price. Trade and other debtors are recognised at transaction price, less any impairment. Debts are written off when there is no realistic prospect of recovery of the amounts owing.
Deferred taxation
Refer to note 5 for the accounting policy on deferred tax assets.
Property deposits
Property deposits are paid to landlords on inception of the lease where applicable and the recoverable amount held on the balance sheet. Discounting is not applied to the carrying value of the deposits as the time value of money is not deemed to be material.
Contingent assets
Contingent assets are not recognised in the balance sheet, but are disclosed in the financial statements when an inflow of economic benefits is considered probable.

Notes to the financial statements *(continued)*

11 Deferred taxation

Deferred tax asset

	£000
At 1 July 2019	1,118
Origination and reversal of timing differences	1,684
Adjustment is respect of prior years	(468)
Impact of change in tax rate	132
At 30 June 2020	**2,466**

The split of the timing differences giving rise to deferred tax are as follows:	**2020 £000**	2019 £000
Difference between accumulated depreciation and capital allowances	**2,381**	1,034
Other timing differences	**85**	84
	2,466	1,118

The amount of the net reversal of deferred tax expected to occur next year is £nil *(2019: £nil)*, relating to the reversal of existing timing differences on tangible fixed assets and other timing differences.

Deferred tax has been recognised at 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.

Accounting Policies
Deferred tax
Refer to note 5 for the accounting policy used for deferred tax assets.

12 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	**7,161**	575
Amounts owed to Group undertakings	**1,623**	3,438
Amounts owed to other related parties	**-**	116
Other taxation and social security	**906**	592
VAT creditor	**1,388**	4,319
Other creditors	**2,399**	2,437
Accruals and deferred income	**7,888**	8,319
	21,365	19,796

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

Notes to the financial statements *(continued)*

12 Creditors: amounts falling due within one year *(continued)*

Accounting Policies
Financial liabilities
Trade and other creditors, amounts owed to Group undertakings and related parties, bank loans and overdrafts are initially recognised at transaction price.
Landlord contributions
Contributions received from landlords are recognised within other creditors and released to the profit and loss account on a straight–line basis over the lease term, unless the contributions received are in relation to works performed on behalf of the landlord. In such cases the contribution is offset against the cost of the assets.

13 Provisions for liabilities

	Onerous lease provision £000	Dilapidation provision £000	Total provision £000
At 1 July 2019	412	384	796
Released or utilised during the year	(361)	(55)	(416)
Charged to the profit and loss account	1,426	141	1,567
At 30 June 2020	**1,477**	**470**	**1,947**

Onerous lease provisions

The onerous lease provision of £1,477,000 *(2019: £412,000)* relates to future lease costs of vacant properties, and properties that will be vacated at an agreed future date, 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.

Dilapidations provisions

The dilapidations provision of £470,000 *(2019: £384,000)* relates to future expenditure that is required on termination of property leases that are within 3 years of termination (where we expect to exit the lease) and are in the name of Lush Retail Limited.

Accounting Policies
Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. No discounting has been applied to the calculation of these provisions as it is not deemed to be significant.
Deferred tax liabilities
Refer to note 5 for the accounting policy used for deferred tax liabilities.

14 Called up share capital

	2020 £000	2019 £000
Authorised		
250,000 Ordinary shares of £1 each *(2019: 250,000 ordinary shares)*	**250**	250
Allotted, called up and fully paid		
9,395 Ordinary shares of £1 each *(2019: 9,395 ordinary shares)*	**9**	9

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

Notes to the financial statements *(continued)*

15 Commitments and contingent liabilities

a) The Company had no capital commitments at 30 June 2020 (*2019: £nil).*

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

	Property	
	2020	2019
	£000	£000
Payments due:		
Within one year	**11,726**	13,328
In the second to fifth years inclusive	**26,902**	33,868
Over five years	**10,214**	14,036
	48,842	61,232

Lush Retail Limited bear the cost of various leases relating to printing equipment and buildings that they have the use of. However, the legal title of a number of these leases belong to related parties within the Lush Cosmetics Group, or are shared between parties. The lease commitment is based on which entities have legal title under these leases. There is also a lease of a building that Lush Retail Limited have the legal title of and share the cost with Cosmetic Warriors, a company outside the Lush Cosmetics Group.

c) Contingent liabilities

The Company has guaranteed the borrowings of its fellow Group undertaking, Lush Ltd. 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 2020 in the financial statements of these undertakings was £35,000,000 *(2019: £33,227,000).*

The Company has also guaranteed payments on a specific lease held in its subsidiary undertaking, Lush Dublin Limited. The future lease commitments under this lease are £1,473,000 *(2019: £1,758,000)* over the period to 31 August 2025.

Accounting Policies

The nature of the lease agreements are assessed at inception to identify whether they are recognised as a finance lease or an operating lease.

Operating leased assets

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

Lease incentives

Rent free periods and lease inducements receivable on entering an operating lease are recognised on the balance sheet and released to the profit and loss account on a straight–line basis over the lease term.

Contingent liabilities

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.

Notes to the financial statements *(continued)*

16 Pension schemes

The Company operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £618,000 *(2019: £753,000)*. There was £223,000 of outstanding employer contributions and employee deductions payable by the Company to the scheme at the end of the financial year *(2019: £302,000)*.

Accounting Policies

The accounting policy for pension schemes and similar arrangements has been addressed in note 4 to these financial statements.

17 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 £22,000 *(2019: £22,000)*. 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.

The following Companies, to which the Company predominantly purchases finished product and pays royalties, are deemed to be related parties due to control or significant influence being exerted by Lush Cosmetics Limited, the ultimate parent company, or due to common ownership.

	Purchases	Purchases	**Royalties paid**	Royalties paid	**Other recharges**	Other recharges	**Closing Cr/(Dr) balance**	Closing Cr/(Dr) balance
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Lush Manufacturing Limited *(see 1) below)*	**43,426**	52,012	-	-	**1,389**	902	(7,823)	1,486
Lush Ltd *(see 2) below)*	**27**	27	**6,075**	7,299	**(851)**	188	-	-
Lush Dublin Limited	-	-	-	-	**(116)**	(176)	(235)	(99)
Lush Distribution Limited	-	-	-	-	**0**	-	31	31
Cosmetic Warriors Limited	-	-	-	-	**(494)**	(114)	(13)	116
ECC Records Limited	-	-	-	-	**(2)**	(15)	-	(17)
Lush Global Digital Limited *(see 3) below)*	-	-	-	-	**3,060**	4,403	1,094	1,882
Lush Cosmetics Limited	-	-	-	-	**889**	-	-	39

Lush Manufacturing Limited is a related party by virtue of it being a 100% subsidiary of Lush Ltd, which holds 86.98% of the ordinary share capital of this Company. Cosmetic Warriors Limited and ECC Records Limited are deemed to be related parties as they have common ownership.

1) Recharges from Lush Manufacturing Limited largely relate to payroll, packaging and distribution services provided on behalf of Lush Retail Limited.

2) Recharges from Lush Ltd are in respect of rental costs incurred on buildings used by Lush Retail Limited, in addition to delivery and distribution services provided on the Company's behalf.

3) Recharges from Lush Global Digital Limited are in respect of various digital services provided on behalf of Lush Retail Limited.

Accounting Policies

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.

Notes to the financial statements *(continued)*

18 Immediate and ultimate parent companies

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.

19 Post balance sheet events

There are no significant post balance sheet events which affect the financial statements.

Notes to the financial statements *(continued)*

20 General accounting policies

a) Statement of compliance

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

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

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

b) Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost accounting rules, 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 publicly 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 this note. Where applicable management have used their judgement in the process of applying the Company's accounting policies.

Going Concern

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

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its working capital requirements for that period. The forecasts assume the continued cash pooling arrangement between the Company and fellow UK subsidiary undertakings Lush Ltd, Lush Manufacturing Limited and Lush Dublin Limited whereby cash surpluses are remitted to Lush Ltd to optimise Group cash management and cash deficits are similarly covered by Lush Ltd.

The Company's immediate parent company, Lush Ltd., has indicated its intention to continue to provide financial and other support to the Company for at least for the next twelve months from the date of signing these accounts to enable it to meet its financial liabilities as they fall due and continue to trade. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The directors have also reviewed sensitised forecasts for the Lush Cosmetics Group for a period of 12 months from the date of approval of these financial statements which show that while there is a funding requirement over the forecast period, it is still comfortably within the borrowing facilities that are available to the Group and there is no breach of financial covenants over this period.

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

Notes to the financial statements *(continued)*

20 General accounting policies *(continued)*

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.

The Company has taken advantage of the following exemptions:

i) From preparing a statement of cash flows, on the basis that 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's 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.

e) Foreign currency

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are translated into sterling using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date and the gains or losses on translation are included in the profit and loss account within operating expenses. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction.

f) Cash at bank and in hand

Cash, for the purpose of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Bank overdrafts, if any, are shown within borrowings in current liabilities.

g) Critical accounting estimates and assumptions

Estimates and judgements are based on historical experience and other factors, including reasonable expectations of future events. 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 7)*

The estimation of recoverable value requires estimation of the future cash flows arising from the relevant investments, assets or CGUs and also selection of appropriate discount rates to calculate the net present value of those cash flows.

ii) Stock provisions (see note 9)

The provision is estimated by management based on historic stock movements, estimated future stock usage and the nature and condition of the existing stock.

iii) Provisions (see note 13)

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 third party property valuations. No discounting has been applied to the calculation of these provisions as it is not deemed to be significant.