

Lovehoney Group Limited

Annual Report and Consolidated Financial Statements Year Ended 31 March 2017

Registration number: 06016233

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Lovehoney Group Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7 to 8
Consolidated Profit and Loss Account	9
Consolidated Statement of Comprehensive Income	10
Consolidated Balance Sheet	11
Balance Sheet	12
Consolidated Statement of Changes in Equity	13
Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Notes to the Financial Statements	16 to 33

Lovehoney Group Limited

Company Information

Directors	R H Longhurst N R Slateford
Registered office	100 Locksbrook Road Bath BA1 3EN
Auditors	PKF Francis Clark Statutory Auditor Hitchcock House Hilltop Park Devizes Road Salisbury Wiltshire SP3 4UF

Lovehoney Group Limited

Strategic Report

Year Ended 31 March 2017

The directors present their strategic report for the year ended 31 March 2017.

Principal activity

The principal activity of the company is holding investments and intellectual property.

Fair review of the business

The principal activity of the group is that of an ecommerce business focused on adult lifestyle products.

The principal financial key performance indicator is turnover. Turnover increased by 31% on the prior year as the business implemented further specific growth plans. These plans included activities in both the UK and non-UK markets and focused particularly on opening overseas fulfilment centres in Brisbane and Atlanta. From 1st July 2016 Lovehoney PTY has fulfilled Australian orders and from 1st January 2017 Lovehoney LLC has fulfilled American orders. Both Lovehoney PTY and Lovehoney LLC are wholly owned subsidiaries of Lovehoney Group Limited.

In the year the business sought to continue its success in the UK with enhancements to the main lovehoney.co.uk website, particularly with regard to making the website even easier to use on mobile devices, and through new television advertising material. Internationally, the business successfully continued to create site specific sales, deals and offers to meet the demands of each geographic location. Leveraging prior year investment gross margins increased from 27% to 29%.

Furthermore, the business continued to position itself for sustained long-term growth by investing in the staffing structure, increasing average staff numbers by 37 and increasing administrative costs by 22%.

Pre-tax profits were £9.0m compared to £5.1m in the prior year, an increase of 76%. The corporation tax charged on these profits equated to 20% compared to a prior year percentage of 17%.

The year-end cash balance increased from £8.9m to £9.7m. Stock levels increased significantly on the prior year reflecting stock held in America and Australia to ensure appropriate fulfillment and the need to hold more stock in the UK for onward distribution to foreign subsidiaries.

Subsequent to the balance sheet date, the company has continued to grow and is experiencing a similar level of growth to that of last year. Territories where we are now providing domestic fulfillment are showing significant growth. The infrastructure put in place in 2015/16, and added to in 2016/17, is ensuring that the company is turning the strong turnover growth into strong profit and cash growth.

On May 12th 2017 the company sold Coco De Mer Limited. The company continues to hold the Coco De Mer brand name.

Principal risks and uncertainties

The main risk to Lovehoney's success is the variability of consumer demand. The group is not exposed to any one customer, or group of customers, due to its extremely wide customer base but is exposed to changes in consumer spending patterns as a whole. The group aims to mitigate this risk by a high level of analysis of its customers' buying patterns and targeting specific offers and products in line with this data. The group's online-only model enables it to keep overheads to a lower level than many of its traditional retail rivals and so remain price-competitive in the face of a tough retail environment.

Lovehoney Group Limited

Strategic Report

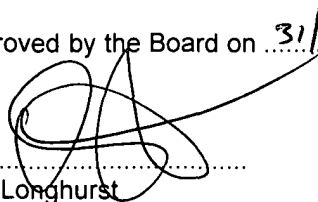
Year Ended 31 March 2017

Financial Risk Management

The exposure to credit risk is not high. All of the group's consumer sales are paid for by the customer at the point of order with the payment being made by the major online payment providers typically within 3 days.

The rapid receipt of cash from customers also reduces the exposure to risks surrounding cash flows, although some risk remains from the requirement to part-pay orders from some OEMs in advance. Although the large majority of the group's sales are denominated in Sterling, a significant element of supplier purchases from the Far East are denominated in US\$. The group manages this risk by taking out forward forex contracts, or options which can be exercised if the settlement terms are favourable. The fair value of these options at year end was not material to the accounts and therefore are not included on the balance sheet. The group's commercial mortgage was fully repaid during the year.

Approved by the Board on 31/3/17 and signed on its behalf by:



.....
R H Longhurst
Director

Lovehoney Group Limited

Directors' Report

Year Ended 31 March 2017

The directors present their report and the consolidated financial statements for the year ended 31 March 2017.

Please refer to the Strategic Report for Financial Risk Management policies.

Directors of the group

The directors who held office during the year were as follows:

R H Longhurst

N R Slateford

Employment of disabled persons

We continue to have an equal opportunities employment policy. Within the limitations of its trading activities, the group's policy is that all employees, including disabled persons, are treated equally in matter relating to recruitment, training, personal development and promotion.

The group seeks to take all reasonably practicable precautions to ensure the health, safety and welfare at work of its employees.

Employee involvement

It is the policy of the group that training and career development are fundamental to our employment strategy and as part of this we launched an accredited qualification in Sexual Happiness during the year.

The group's policy is to consult and discuss with employees, by way of meetings, and through personal contact by directors and management, matters likely to affect employee's interest.

Information concerning the company on matters of interest and concern to employees is communicated through normal management channels.

Details of the numbers of employees and related costs can be found in note 5 to the financial statements on page 21.

Going concern

The directors have considered the key factors affecting the going concern basis of preparation. These include the level and profitability of current and future forecast trading, the length of the cash flow cycle inherent in the company's operating model, the level of free cash flow, requirements for future capital expenditure, the extent of unutilised facilities, and exposure to financial risks as detailed above.

On the basis of this assessment the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Hence, they continue to adopt the going concern basis of preparation in preparing the financial statements.

Important non adjusting events after the financial period

On 12 May 2017 the company disposed of its shareholding in DM 66 Limited and its subsidiary Coco De Mer Limited.

Lovehoney Group Limited

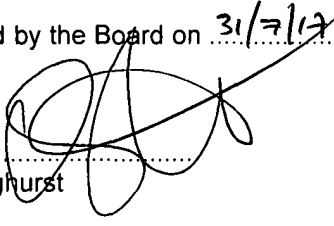
Directors' Report

Year Ended 31 March 2017

Disclosure of information to the auditor

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

Approved by the Board on 31/7/17 and signed on its behalf by:


.....
R H Longhurst
Director

Lovehoney Group Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting 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; 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.

Lovehoney Group Limited

Independent Auditor's Report to the Members of Lovehoney Group Limited

We have audited the financial statements of Lovehoney Group Limited for the year ended 31 March 2017, set out on pages 9 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 6), 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors to the financial statements.

Scope of the audit of the financial statements

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. 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the company's affairs as at 31 March 2017 and of the group's 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.

Lovehoney Group Limited

Independent Auditor's Report to the Members of Lovehoney Group Limited

Opinion on other matter prescribed by the Companies Act 2006

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

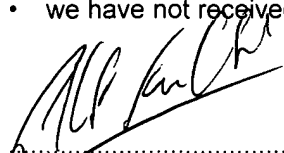
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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.


.....
Paul Giessler (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

Hitchcock House
Hilltop Park
Devizes Road
Salisbury
Wiltshire
SP3 4UF

Date: 31 July 2017

Lovehoney Group Limited

Consolidated Profit and Loss Account

Year Ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	76,340	58,076
Cost of sales		<u>(54,518)</u>	<u>(42,432)</u>
Gross profit		21,822	15,644
Administrative expenses		(12,809)	(10,533)
Other operating income		<u>38</u>	<u>61</u>
Operating profit	4	<u>9,051</u>	<u>5,172</u>
Other interest receivable and similar income		12	19
Amounts written off investments		(33)	-
Interest payable and similar charges		<u>(13)</u>	<u>(28)</u>
		(34)	(9)
Share of loss of equity accounted investees		<u>-</u>	<u>(27)</u>
Profit before tax		9,017	5,136
Taxation	8	<u>(1,783)</u>	<u>(857)</u>
Profit for the financial year		<u>7,234</u>	<u>4,279</u>
Profit/(loss) attributable to:			
Owners of the company		<u>7,234</u>	<u>4,279</u>

The notes on pages 16 to 33 form an integral part of these financial statements.

Lovehoney Group Limited

Consolidated Statement of Comprehensive Income

Year Ended 31 March 2017

	Note	2017 £'000	2016 £'000
Profit for the year		7,234	4,279
Foreign currency translation gains/(losses)		<u>259</u>	<u>(1)</u>
Total comprehensive income for the year		<u>7,493</u>	<u>4,278</u>
Total comprehensive income attributable to:			
Owners of the company		<u>7,493</u>	<u>4,278</u>

The notes on pages 16 to 33 form an integral part of these financial statements.

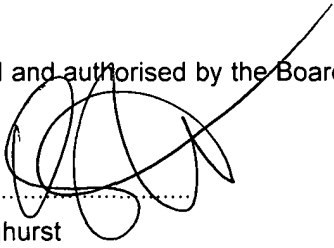
Lovehoney Group Limited

Consolidated Balance Sheet

31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	9	212	345
Tangible assets	10	1,688	1,712
Investments	12	-	33
		<u>1,899</u>	<u>2,090</u>
Current assets			
Stocks	13	8,543	4,383
Debtors	14	2,442	2,346
Cash at bank and in hand		<u>9,664</u>	<u>8,875</u>
		20,649	15,604
Creditors: Amounts falling due within one year	15	<u>(9,289)</u>	<u>(5,292)</u>
Net current assets		<u>11,361</u>	<u>10,312</u>
Total assets less current liabilities		13,260	12,402
Creditors: Amounts falling due after more than one year	15	-	(393)
Provisions for liabilities		<u>(20)</u>	<u>(42)</u>
Net assets		<u>13,240</u>	<u>11,967</u>
Capital and reserves			
Profit and loss account	20	<u>13,240</u>	<u>11,967</u>
Total equity		<u>13,240</u>	<u>11,967</u>

Approved and authorised by the Board on 31/3/17 and signed on its behalf by:



 R H Longhurst
 Director

Lovehoney Group Limited

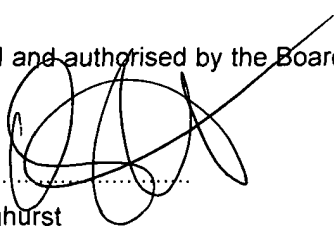
Balance Sheet

31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	9	9	9
Investment property	11	1,868	1,830
Investments	12	-	129
		<u>1,877</u>	<u>1,967</u>
Current assets			
Debtors	14	1,671	428
Cash at bank and in hand		54	464
		<u>1,725</u>	<u>892</u>
Creditors: Amounts falling due within one year	15	<u>(344)</u>	<u>(212)</u>
Net current assets		<u>1,381</u>	<u>680</u>
Total assets less current liabilities		<u>3,257</u>	<u>2,647</u>
Provisions for liabilities		<u>-</u>	<u>(90)</u>
Net assets		<u><u>3,257</u></u>	<u><u>2,557</u></u>
Capital and reserves			
Profit and loss account		<u>3,257</u>	<u>2,557</u>
Total equity		<u><u>3,257</u></u>	<u><u>2,557</u></u>

The company made a profit after tax for the financial year of £6,920,048 (2016 - profit of £1,018,622).

Approved and authorised by the Board on 31/7/17 and signed on its behalf by:



 R H Longhurst
 Director

Company Registration Number: 06016233

Lovehoney Group Limited

Consolidated Statement of Changes in Equity Year Ended 31 March 2017

	Share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000	Total equity £'000
At 1 April 2016	-	-	11,967	11,967	11,967
Profit for the year	-	-	7,234	7,234	7,234
Other comprehensive income	-	-	259	259	259
Total comprehensive income	-	-	7,493	7,493	7,493
Dividends	-	-	(6,220)	(6,220)	(6,220)
At 31 March 2017	-	-	13,240	13,240	13,240

	Share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000	Total equity £'000
At 1 April 2015	-	-	8,189	8,189	8,189
Profit for the year	-	-	4,279	4,279	4,279
Other comprehensive income	-	-	(1)	(1)	(1)
Total comprehensive income	-	-	4,278	4,278	4,278
Dividends	-	-	(500)	(500)	(500)
At 31 March 2016	-	-	11,967	11,967	11,967

The notes on pages 16 to 33 form an integral part of these financial statements.
Page 13

Lovehoney Group Limited

Statement of Changes in Equity Year Ended 31 March 2017

	Share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2016	-	-	2,557	2,557
Profit for the year	-	-	6,920	6,920
Total comprehensive income	-	-	6,920	6,920
Dividends	-	-	(6,220)	(6,220)
At 31 March 2017	-	-	3,257	3,257
At 1 April 2015	-	-	2,038	2,038
Profit for the year	-	-	1,019	1,019
Total comprehensive income	-	-	1,019	1,019
Dividends	-	-	(500)	(500)
At 31 March 2016	-	-	2,557	2,557

Lovehoney Group Limited

Consolidated Statement of Cash Flows

Year Ended 31 March 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the year		7,234	4,279
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	4	381	375
Other non cash movements		259	(1)
Loss on disposal of tangible assets		2	-
Finance income		(12)	(19)
Finance costs		47	28
Share of (loss)/profit of equity accounted investees		-	27
Tax expense	8	1,783	857
		<u>9,694</u>	<u>5,546</u>
Working capital adjustments			
Increase in stocks	13	(4,160)	(1,099)
(Increase)/decrease in trade debtors	14	(96)	312
Increase in trade creditors	15	3,126	128
		<u>8,564</u>	<u>4,887</u>
Cash generated from operations			
Tax paid		(921)	(858)
		<u>7,643</u>	<u>4,029</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Interest received		12	19
Acquisitions of tangible assets		(174)	(172)
Proceeds from sale of tangible assets		10	-
Acquisition of intangible assets	9	(61)	(390)
		<u>(213)</u>	<u>(542)</u>
Net cash flows from investing activities			
Cash flows from financing activities			
Interest paid		(13)	(28)
Repayment of mortgage		(408)	-
Dividends paid		(6,220)	(500)
		<u>(6,641)</u>	<u>(528)</u>
Net cash flows from financing activities			
Net increase in cash and cash equivalents		789	2,959
Cash and cash equivalents at 1 April		8,875	5,916
Cash and cash equivalents at 31 March		<u>9,664</u>	<u>8,875</u>

The notes on pages 16 to 33 form an integral part of these financial statements.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

1 General information

The company is a private company limited by share capital incorporated in England and Wales.

The address of its registered office is:

100 Locksbrook Road

Bath

BA1 3EN

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The presentational currency is £ sterling.

Reduced disclosure exemptions

Lovehoney Group Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its individual financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, share based payments and remuneration of key management personnel. Equivalent information is presented in relation to these group accounts.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2017.

No Profit and Loss Account is presented for the company as permitted by section 408 of the Companies Act 2006. The company made a profit after tax for the financial year of £6,920,048 (2016 - profit of £1,018,622).

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

The results of subsidiaries acquired or disposed of during the year are included in the Profit and Loss Account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Foreign subsidiaries and associates have their profit and loss account translated at the average rate for the period. Monetary balances at year end are translated at the rates of exchange ruling at the balance sheet date. Non-monetary balances are translated at the rates of exchange ruling at the date of the original transaction. Foreign exchange differences arising upon translation of subsidiaries and associates are taken to other comprehensive income.

An investment where the group has participating interest and can exercise a significant degree of control is considered to be under the significant influence of the group. This is accounted for as an associate under the equity accounting method. Associates are initially measured at the cost of the investment and are thereafter adjusted by the group share of the movement in net assets.

Critical accounting judgements and key sources of estimation uncertainty

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

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

The key sources of judgement and estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are described below.

Judgement

Recognition of website development costs - as described within accounting policies, website development costs are capitalised and amortised when the expenditure is considered to give rise to a new or enhanced revenue stream, and when the profits arising are considered more likely than not to exceed the cost of development.

Estimation uncertainty

Useful life of intangible assets - as described within the accounting policies, website development costs are capitalised and amortised over three years. The directors feel this is the useful life that can be attributed to the existing website before further development is required to keep pace with a modern IT environment and to keep pace with the planned growth of the group. The carrying value of these assets at 31 March 2017 is £203,449 (2016 - £336,639).

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

Revenue recognition

Turnover represents the value of goods sold during the period, net of Value Added Tax and trade discounts. Turnover is recognised on online and trade sales when goods are despatched to the customer, and at the point of sale for shop retail sales.

Uninvoiced deliveries at the year end are included in accrued income. Invoiced deliveries are included in debtors. Where customers pay in advance for goods, the amount is presented as deferred income until the goods have been despatched.

Other operating income represents management charges and operational support to key trading partners, and is recognised on a receivable basis.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

Deferred tax is recognised on all timing differences at the balance sheet date unless indicated below. Timing differences are differences between taxable profits and the results as stated in the consolidated profit and loss account and other comprehensive income. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold property	2% straight line
Leasehold improvements	20% straight line
Plant and machinery	33% straight line
Fixtures and fittings	25% straight line
Motor vehicles	25% straight line
Equipment	25% straight line

Investment property

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined by external valuers or directors. The directors or valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Changes in fair value are recognised in profit or loss.

Intangible assets

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold, or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Website development costs are capitalised and amortised when the expenditure is considered to give rise to a new or enhanced revenue stream, and when the profits arising are considered more likely than not to exceed the cost of development.

Patents and trademarks are capitalised at stand alone purchase cost and amortised when the expenditure is considered to give rise to a new or enhanced revenue stream.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	20-33% straight line
Patents and trademarks	33% straight line
Website development costs	33% straight line

Investments

Investments are stated at historical cost less provision for any diminution in value.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

Stock

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expenses when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Financial instruments

Classification

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument and derecognised when in the case of assets, the contractual rights to cash flows from the assets expire or substantially all the risks and rewards of ownership are transferred to another party, or in the case of liabilities, when the group's obligations are discharged, expire or are cancelled.

The group holds the following financial instruments:

- Short term trade debtors and creditors;
- Mortgages

Recognition and measurement

Basic financial assets and liabilities - basic financial assets comprise short term trade and other debtors and cash and bank balances, including short term loans. Basic financial liabilities comprise short term trade and other creditors. Such instruments are initially measured at transaction price, including transaction costs, and are subsequently carried at the undiscounted amount of the cash or other consideration expected to be paid or received, after taking account of impairment adjustments.

Interest-bearing mortgages are initially recorded at fair value, net of transaction costs. Interest-bearing mortgages are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Mortgages are classified as current liabilities unless the Group has an unconditional right to defer settlement of liability for at least twelve months after the reporting date.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

3 Turnover

The analysis of the group's revenue for the year from continuing operations is as follows:

	2017	2016
	£'000	£'000
Sale of goods	<u>76,340</u>	<u>58,076</u>

The analysis of the group's turnover for the year by market is as follows:

	2017	2016
	£'000	£'000
UK	50,137	42,279
Europe	6,407	4,241
Rest of world	<u>19,796</u>	<u>11,556</u>
	<u>76,340</u>	<u>58,076</u>

4 Operating profit

Arrived at after charging/(crediting)

	2017	2016
	£'000	£'000
Depreciation expense	186	130
Amortisation expense	195	245
Foreign exchange gains	(155)	(132)
Operating lease expense - property	262	161
Operating lease expense - plant and machinery	36	14
Loss on disposal of property, plant and equipment	<u>2</u>	<u>-</u>

5 Staff costs

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

	2017	2016
	£'000	£'000
Wages and salaries	6,913	5,054
Social security costs	551	435
Pension costs, defined contribution scheme	<u>426</u>	<u>375</u>
	<u>7,890</u>	<u>5,864</u>

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

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

	2017 No.	2016 No.
Administration and support	244	207
Management	7	7
	<u>251</u>	<u>214</u>

6 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £'000	2016 £'000
Remuneration	27	41
Contributions paid to money purchase schemes	80	98
	<u>107</u>	<u>139</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2017 No.	2016 No.
Accruing benefits under defined benefit pension scheme	<u>2</u>	<u>2</u>

7 Auditor's remuneration

	2017 £'000	2016 £'000
Audit of these financial statements	8	5
Audit of the financial statements of subsidiaries of the company pursuant to legislation	49	50
	<u>57</u>	<u>55</u>

Other fees to auditors

Taxation compliance services	28	49
All other services	2	11
All other services relating to corporate finance transactions on behalf of the company or any associates	-	30
	<u>31</u>	<u>89</u>

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

8 Taxation

Tax charged/(credited) in the profit and loss account

	2017 £'000	2016 £'000
Current taxation		
UK corporation tax	1,922	955
UK corporation tax adjustment to prior periods	(116)	(154)
	<u>1,806</u>	<u>801</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(31)	56
Arising from changes in tax rates and laws	2	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	7	-
	<u>(23)</u>	<u>56</u>
Total deferred taxation	<u>(23)</u>	<u>56</u>
Tax expense in the income statement	<u>1,783</u>	<u>857</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 20% (2016 - 20%).

The differences are reconciled below:

	2017 £'000	2016 £'000
Profit before tax	<u>9,017</u>	<u>5,136</u>
Corporation tax at standard rate	1,803	1,027
Expenses not deductible for tax	333	24
Effect of tax losses	-	13
Deferred tax expense (credit) relating to changes in tax rates or laws	(4)	43
Deferred tax expense (credit) from unrecognised tax loss or credit	(195)	-
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	(10)	-
Increase (decrease) in UK and foreign current tax from adjustment for prior periods	(116)	(154)
Tax increase (decrease) from effect of adjustment in research and development tax credit	-	(105)
Other tax effects for reconciliation between accounting profit and tax expense (income)	(28)	8
Total tax charge	<u>1,783</u>	<u>857</u>

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

9 Intangible assets

Group

	Goodwill £'000	Trademarks, patents and licenses £'000	Website development costs £'000	Total £'000
Cost or valuation				
At 1 April 2016	202	25	605	831
Additions acquired separately	-	-	61	61
At 31 March 2017	202	25	666	892
Amortisation				
At 1 April 2016	202	16	268	486
Amortisation charge	-	-	195	195
At 31 March 2017	202	16	463	681
Carrying amount				
At 31 March 2017	-	9	203	212
At 31 March 2016	-	9	337	345

Company

	Trademarks, patents and licenses £'000	Total £'000
Cost or valuation		
At 1 April 2016	25	25
At 31 March 2017	25	25
Amortisation		
At 1 April 2016	16	16
At 31 March 2017	16	16
Carrying amount		
At 31 March 2017	9	9
At 31 March 2016	9	9

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

10 Tangible assets

Group

	Land and buildings £'000	Furniture, fittings and equipment £'000	Motor vehicles £'000	Other property, plant and equipment £'000	Total £'000
Cost or valuation					
At 1 April 2016	1,643	34	4	1,072	2,754
Additions	91	-	11	72	174
Disposals	-	-	(11)	(1)	(12)
At 31 March 2017	<u>1,735</u>	<u>34</u>	<u>4</u>	<u>1,142</u>	<u>2,915</u>
Depreciation					
At 1 April 2016	93	25	4	919	1,042
Charge for the year	<u>64</u>	<u>9</u>	<u>-</u>	<u>113</u>	<u>186</u>
At 31 March 2017	<u>157</u>	<u>34</u>	<u>4</u>	<u>1,032</u>	<u>1,227</u>
Carrying amount					
At 31 March 2017	<u>1,578</u>	<u>-</u>	<u>-</u>	<u>110</u>	<u>1,688</u>
At 31 March 2016	<u>1,550</u>	<u>9</u>	<u>-</u>	<u>153</u>	<u>1,712</u>

Included within the net book value of land and buildings above is £1,437,431 (2016 - £1,432,007) in respect of freehold land and buildings and £140,191 (2016 - £118,257) in respect of short leasehold land and buildings.

11 Investment properties

Company

	2017 £'000
At 1 April 2016	1,830
Additions	<u>38</u>
At 31 March 2017	<u>1,868</u>

The investment property was valued on 1 July 2016 by Graham B H James FRICS IRRV (Hons) of Carter Jonas. The directors have valued the investment property in the current year.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

12 Investments

Group

Details of undertakings

	Associated undertakings £'000
Carrying amount	
At 1 April 2016	33
Provision charge	(33)
At 31 March 2017	-

Details of the investments (including principal place of business of unincorporated entities) in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2017	2016
Subsidiary undertakings				
Lovehoney Inc	C/O The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801 USA	Ordinary	100%	100%
Lovehoney LLC	C/O Capitol Corporate Services Inc, 206 E 9th St, Ste 1300, Austin, TX 78701 USA	Ordinary	100%	100%
Lovehoney Limited*	100 Locksbrook Road, Bath, BA1 3EN England	Ordinary	100%	100%
DM 66 Limited*	C/O Carter Backer Winter LLP, 66 Prescott Street, London, E1 8NN England	Ordinary	100%	100%
Coco De Mer Limited	C/O Carter Backer Winter LLP, 66 Prescott Street, London, E1 8NN England	Ordinary	100%	100%

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

Lovehoney Australia Pty Limited*	C/O Judson Koman, 20 Ordinary Mayneview Street, Milton, Queensland 4064 Australia	100%	100%
Mi Ai (Shanghai) Trading Co Ltd	Room 421, No. 819, Lane 1218, Ordinary Wanrong Road, Zha Bei District, Shanghai China	100%	100%
Be-Cheeky Limited*	100 Locksbrook Road, Bath, Ordinary BA1 3EN England	100%	100%

Associates

The Love Group Pty Limited*	C/O Judson Koman, 20 Ordinary Mayneview Street, Milton, Queensland 4064 Australia	25%	25%
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* indicates direct investment of the company

Subsidiary undertakings

The principal activity of Lovehoney Inc is non trading holding company

The principal activity of Lovehoney LLC is online retailer

The principal activity of Lovehoney Limited is online retailer

The principal activity of DM 66 Limited is non trading holding company

The principal activity of Coco De Mer Limited is retailer

The principal activity of Lovehoney Australia Pty Limited is online retailer

The principal activity of Mi Ai (Shanghai) Trading Co Ltd is non trading company

The principal activity of Be-Cheeky Limited is dormant company

Associate undertakings

The principal activity of The Love Group Pty Limited is online retailer .

Company

	2017 £'000	2016 £'000
Investments in associates	-	129

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

Associates	£'000
Cost	
At 1 April 2016	129
Provision	
Provision	129
Carrying amount	
At 31 March 2017	-
At 31 March 2016	129

13 Stocks

	2017 £'000	Group 2016 £'000	2017 £'000	Company 2016 £'000
Work in progress	29	-	-	-
Other inventories	8,514	4,383	-	-
	<u>8,543</u>	<u>4,383</u>	<u>-</u>	<u>-</u>

Group

The cost of stocks recognised as an expense in the year amounted to £39,374,056 (2016 - £29,435,509).

14 Debtors

	Note	2017 £'000	Group 2016 £'000	2017 £'000	Company 2016 £'000
Trade debtors		1,005	348	-	-
Amounts owed by related parties	25	-	118	1,671	428
Other debtors		43	70	-	-
Prepayments		<u>1,394</u>	<u>1,811</u>	<u>-</u>	<u>-</u>
Total current trade and other debtors		<u>2,442</u>	<u>2,346</u>	<u>1,671</u>	<u>428</u>

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

15 Creditors

	Note	2017 £'000	Group 2016 £'000	2017 £'000	Company 2016 £'000
Due within one year					
Loans and borrowings	16	-	14	-	-
Trade creditors		2,659	2,343	15	17
Social security and other taxes		1,183	310	79	58
Outstanding defined contribution pension costs		61	42	-	-
Other creditors		1,055	1,040	-	-
Accrued expenses		3,104	1,203	6	2
Corporation tax	8	1,227	341	244	135
		<u>9,289</u>	<u>5,292</u>	<u>344</u>	<u>212</u>
Due after one year					
Loans and borrowings	16	-	393	-	-

16 Loans and borrowings

	2017 £'000	Group 2016 £'000	2017 £'000	Company 2016 £'000
Non-current loans and borrowings				
Mortgage	-	393	-	-

	2017 £'000	Group 2016 £'000	2017 £'000	Company 2016 £'000
Current loans and borrowings				
Mortgage	-	14	-	-

Group

Included in the loans and borrowings are the following amounts due after more than five years:

	2017 £'000	2016 £'000
After more than five years by instalments	-	326

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

17 Obligations under leases and hire purchase contracts

Group

Operating leases

The total of future minimum lease payments is as follows:

	2017 £'000	2016 £'000
Not later than one year	323	149
Later than one year and not later than five years	754	179
Later than five years	55	65
	<u>1,132</u>	<u>393</u>

18 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £426,272 (2016 - £375,397).

Contributions totalling £61,164 (2016 - £41,783) were payable to the scheme at the end of the year and are included in creditors.

19 Share-based payments

EMI scheme

Scheme details and movements

On 6 September 2013 the company entered into an Enterprise Management Incentive (EMI) scheme to issue share options to certain employees of the subsidiary, Lovehoney Limited. Options vest provided that the employee who has been granted the option remains employed by the group at the earliest date that they may exercise the option. Options are forfeited if the employee leaves the group before the options vest. The options will be settled by the issue of fully-paid ordinary shares.

The movements in the number of share options during the year were as follows:

	2017 Number	2016 Number
Outstanding, start of period	422	422
Outstanding, end of period	<u>422</u>	<u>422</u>

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

The movements in the weighted average exercise price of share options during the year were as follows:

	2017 £'000	2016 £'000
Outstanding, start of period	0.11	0.11
Outstanding, end of period	0.11	0.11

20 Reserves

Group

Share capital

Share capital of £100 representing 10,000 ordinary shares of 1p.

Capital redemption reserve

Represents Capital redemption reserve of £200 arising on the repurchase of ordinary £1 shares by the company.

Profit and loss account

Represents accumulated profits of the group including foreign exchange differences on translation of subsidiaries as identified below.

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Retained earnings £'000	Total £'000
Foreign currency translation gains/(losses)	259	259

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Retained earnings £'000	Total £'000
Foreign currency translation gains/(losses)	(1)	(1)

Company

Share capital

Share capital of £100 representing 10,000 ordinary shares of 1p.

Capital redemption reserve

Represents Capital redemption reserve of £200 arising on the repurchase of ordinary £1 shares by the company.

Profit and loss account

Represents accumulated profits of the company and includes non distributable reserves of £395,047 for the fair value movements on investment property.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

21 Share capital

Allotted, called up and fully paid shares

	No. 000	2017 £'000	No. 000	2016 £'000
Ordinary shares of £0.01 each	<u>10</u>	<u>0.10</u>	<u>10</u>	<u>0.10</u>

22 Dividends

	2017 £'000	2016 £'000
Interim dividend of £622.00 (2016 - £50.00) per ordinary share	6,220	500

23 Non adjusting events after the financial period

On 12 May 2017 the company disposed of its shareholding in DM 66 Limited and its subsidiary Coco De Mer Limited.

24 Financial instruments

Group

Categorisation of financial instruments

	2017 £'000	2016 £'000
Financial liabilities measured at amortised cost	<u>-</u>	<u>407</u>
	<u>-</u>	<u>407</u>

The financial liability in the previous year is the mortgage which has been repaid in full during the year.

Lovehoney Group Limited

Notes to the Financial Statements

Year Ended 31 March 2017

25 Related party transactions

Group

Key management compensation

	2017 £'000	2016 £'000
Salaries and other short term employee benefits	611	206
Post-employment benefits	111	-
	<u>723</u>	<u>206</u>

Transactions with directors

Other transactions with directors

At the balance sheet date the amounts due to R H Longhurst and N R Slateford were £15,051 (2016: £6,944) and £22,848 (2016: £8,102) respectively.

Summary of transactions with associates

Lovehoney Limited recharged costs of £nil (2016: £nil) to its associate during the year. At the balance sheet date the amount due from the associate was £nil (2016: £144,277). A provision of £123,139 has been made in the accounts.

Company

Transactions with directors

Dividends paid to directors and family members

	2017 £'000	2016 £'000
R H Longhurst	<u>3,110</u>	<u>250</u>
N R Slateford	<u>3,110</u>	<u>250</u>