Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2017.

Results and dividends

There was a profit for the financial year amounting to £43,625,000 (2016: £30,035,000). The Company proposed and paid dividends of £182.50 per share during the year, a total of £1,500,000 (2016: £2,250,000). Please see note 9 for further details on dividends paid during the financial year.

A final dividend payment for the year ended 30 June 2017 of £164.26 per share, a total of £1,500,000, was proposed and paid on 1 March 2018. A further interim dividend in respect of the year ended 30 June 2018 of £109.51 per share, a total of £1,000,000, was proposed and paid on 7 March 2018.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Mr M Constantine
Mrs M Constantine
Mr K Bygrave

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

Charitable contributions

Lush partners worldwide raised and set aside funds of £13,370,000 (2016: £10,413,000) and donated a total of £11,763,000 (2016: £8,250,000) of funds to charities and other good causes; of the total amount donated, £8,311,000 was from the Lush Group including the relevant share of Joint Ventures and Associate entities (2016: £6,202,000), an increase of 34.0%. Funds raised in the year but not donated are carried forward for distribution in the following year.

Our charitable giving focus remains on innovative, effective giving through 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 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.

The majority of funds raised in the year was through the sale of Charity Pot body lotion, which is sold in various sizes online and in our shops. This year Lush partners raised £9,845,000 (2016:£6,293,000) in 36 countries, with 100% of the retail price of the product, less VAT, going to a variety of good causes working in the focus areas.

Other contributions to our Charitable donations total are as follows:

-The 'Sustainable Lush' (SLush) fund raised a total of £1,465,000 (2016:£1,510,000) of which a total of £1,285,000 (2016: £1,171,000) was donated in the year with a further £180,000 set aside, predominantly to permaculture farms and to some of our suppliers to enable them to become more sustainable. Ingredients from projects funded through the SLush Fund are included in our Charity Pot formula.

-The Carbon Tax fund which is a self- imposed tax charged on staff's international flights at a rate of £50 per tonne of carbon dioxide emitted with the raised funds being donated to environmental groups. A total of £318,000 was raised in the year (2016: £314,000).

-FunD which is a fund used to support children affected by the Fukushima disaster, and raises funds through global sales of our FUN product; the total amount raised in the year was £206,000 (2016: £195,000).

-We also ran the Lush Prize again in this financial year, where we donated a total of £250,000 (2016: £250,000) to the winners, all of whom are engaged in research, campaigning or training to end animal testing.

-We set aside and donated £220,000 (2016: £200,000) for our Annual awards whereby we contribute £20,000 to special groups we partner with, or think are making a vital contribution to social change.

-Various limited edition products for specific charities and campaigns, raising £1,066,000 (2016: £1,447,000). Examples include our Error 404 bath bomb supporting the campaign to stop government enforced shut downs of internet services where we raised funds of £189,000 and our 'Buy One, Set One Free' campaign which raised £61,000 and is aimed at raising awareness and money to support Reprieve in their attempts to ensure the safe release of Andy Tsegem who was kidnapped from an international airport and is being held illegally on Ethiopia's death row.

Directors’ report (continued)

Taxation and Country by Country Reporting

Whilst our consolidated turnover is not substantial enough to require mandatory country by country reporting, we wish to be transparent with readers of our financial statements regarding our contribution to taxation globally so continue to report on a voluntary basis.

We are pleased to be associated with the Fair Tax Mark and to support the work they do to encourage companies to be open and transparent about their tax affairs. We are proud to have been awarded the Fair Tax Mark again this year and continue to promote the importance of this throughout our global business in our Ethical Tax policy which states clearly to our staff, customers and suppliers our belief that we should contribute back into the societies within which we trade by paying our taxes fairly.

The country by country breakdown in respect of the year ended 30 June 2017 is as follows:

									Total taxes charged £ k		Taxes Paid £k					
Country of operation	Number of shops	Number of factories	Number of employees	External revenue - £ k	Related party revenue - £ k	Total revenue - £ k	Staff costs - £ k	Profit before tax - £ k	Tax on profits	Effective tax rate	Corporation tax	Premises tax	Payroll taxes	Stamp duty	Customs duty	Total taxes paid - £k
UK	102	1	4,942	140,149	179,654	319,803	79,899	18,618	7,274	39.1%	5,572	5,924	7,345	112	322	19,275
Japan	100	1	1,495	81,241	3,102	84,343	34,562	(3,685)	118	-3.2%	51	150	4,449	1	178	4,829
Australia	32	1	757	42,538	21,359	63,897	19,149	1,351	819	60.6%	284	-	1,681	-	118	2,083
France	44	-	491	31,469	695	32,164	11,871	2,165	498	23.0%	297	66	-	-	-	363
Germany	41	1	936	26,817	15,415	42,232	16,647	(4,335)	376	-8.7%	135	-	4,439	-	-	4,574
Hong Kong and Macau	11	-	203	19,086	-	19,086	4,130	(3,506)	115	-3.3%	1,455	219	-	5	-	1,679
Italy	34	-	360	18,005	617	18,622	7,587	(873)	108	-12.4%	65	13	3,222	3	-	3,303
Middle East	20	-	237	17,148	-	17,148	5,215	1,284	(49)	-3.8%	-	-	-	-	-	-
Netherlands	9	-	201	10,363	-	10,363	3,225	1,229	807	65.7%	616	-	-	-	-	616
Spain	16	-	340	11,584	-	11,584	4,902	(1,120)	-	0.0%	-	40	1,304	-	-	1,344
Sweden	9	-	113	6,600	-	6,600	2,611	(175)	-	0.0%	-	20	1,078	-	-	1,098
New Zealand	9	-	122	7,740	-	7,740	1,448	683	240	35.1%	-	-	-	-	-	-
Austria	7	-	57	5,851	-	5,851	2,181	572	42	7.3%	9	-	854	-	-	863
Belgium	5	-	69	4,520	-	4,520	1,399	442	113	25.6%	129	-	271	-	-	400
Ireland	3	-	89	3,829	-	3,829	959	819	110	13.4%	-	66	92	-	-	158
Brazil	5	1	45	3,987	677	4,664	2,012	(7,035)	30	-0.4%	-	-	735	-	87	822
Czechia	1	-	28	1,948	-	1,948	304	629	122	19.4%	89	-	3	-	-	92
Hungary	4	-	36	1,912	-	1,912	453	233	25	10.7%	-	-	87	-	-	87
Luxembourg	1	-	4	864	-	864	228	268	56	20.9%	45	-	6	-	-	51
Portugal	2	-	21	668	-	668	260	(138)	-	0.0%	-	-	74	-	-	74
Bulgaria	2	-	11	308	-	308	117	22	-	0.0%	-	-	11	-	-	11
Estonia	1	-	9	273	-	273	88	47	-	0.0%	-	-	34	-	-	34
Peru	-	-	5	-	-	-	63	(137)	-	0.0%	-	-	2	-	-	2
Ghana	-	-	22	-	7	7	20	(62)	-	0.0%	-	-	1	-	1	2
Latvia [1]	-	-	1	-	-	-	8	211	-	0.0%	-	-	2	-	-	2
Lithuania [1]	-	-	-	9	-	9	21	183	-	0.0%	-	-	5	-	-	5
Croatia - Manufacturing	-	1	382	-	14,662	14,662	3,294	1,701	(458)	-26.9%	166	-	429	-	-	595
Elimination and consolidation [2]				-	(175,309)	(175,309)		12,747	761							
Deferred tax consol [3]									(270)							
Group subtotal	458	6	10,976	436,909	60,879	497,788	202,653	22,138	10,837	49.0%	8,913	6,498	26,124	121	706	42,362
Share of PBT:																
Joint Ventures' [4]						218,608		48,580	18,514	38.1%						
Associates'						27,352		2,764	506	18.3%						
Non group subtotal						245,960		51,344	19,020	37.0%						
						743,748		73,482	29,857	40.6%						

Note 1: Operations ceased during the year but are included here for completeness.

Note 2: Elimination of manufacturing sales to group companies and consolidation adjustments.

Note 3: Recognition of deferred tax asset on unrecognised intra-group profits and deferred tax recognised at Group Level.

Note 4: The Joint Ventures' profit before tax relates to our share of the North American business.

Premises taxes refers to business rates or their country equivalent.

Directors' report (continued)

Taxation and Country by Country Reporting (continued)

All our group entities are tax resident in their place of incorporation. Whilst we have group and associate entities located in countries which are perceived as tax havens, our presence there is due to economic substance, not for tax reasons. For example, in the Middle East our retail shops have increased from 15 to 20 during the financial year. In addition, the Swiss holding company was originally set up to support and supply franchises that were operating in France. Although the company has not traded since 2012/13, it does now hold the investment for our Brazilian company. It is not structured in this way for tax avoidance purposes, but due to a former trading relationship that has now terminated.

Our effective tax rate of 40.6% is higher than the standard rate of Corporation Tax in the UK of 19.75%. This is predominantly due to the impact of profits which are taxed at a higher rate than the UK (most notably in the US), expenses not deductible for tax purposes relating to Hong Kong and North America and unrecognised deferred tax assets in respect of tax losses accumulated in the year.

It should be noted that the effective tax rate reflects the tax provision for accounting purposes which includes deferred tax and is not reflective of the Group's actual contribution to taxes during the financial year, which is shown with the country by country breakdown in the table above.

During the year, we have encountered a few enquiries from tax authorities on the tax treatment of some inter-company transactions. Whilst we have defended our position where we feel this is appropriate, there have been circumstances where we have worked with the tax authorities to resolve the discrepancies, in some instances this has included making payments for tax under declared and correcting the tax treatment going forwards. In some situations, we have incurred interest and penalties which we have duly paid. Post year end, we continue to have open discussions with global tax authorities and have engaged professional services firms locally where additional support is deemed necessary.

Note 8 of the accounts provides further detail and narrative around the corporation tax charge for the year ended 30 June 2017, which is only one element of our tax contribution for the year.

Branches outside the UK

At 30 June 2017 and 30 June 2016 the Lush Group had overseas branches in Luxembourg and Czechia.

Disclosure of information to auditors

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

Change of external auditors

Following a review by management of the external audit process, KMPG LLP is being recommended for appointment as the Group's external auditors for the year ending 30 June 2018.

On behalf of the board

Mr M Constantine
Director

12 March 2018

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