WARPAINT LONDON PLC
ANNUAL REPORT 2018

Contents

Mission Statement

"Warpaint's mission is to ensure that everybody should have access to an extensive range of high quality cosmetics at an affordable price."

We strive to fulfil our mission by:

- Creating innovative, eye catching and desirable packaging
- Creating cosmetic products of high quality
- Always striving to improve and better our brand and product offers
- Being at the cutting edge of trend

Our Values

- We use the finest quality ingredients available
- We manufacture products that are safe and kind to the user
- We follow and adhere strictly to all relevant regulatory compliance in all territories where we sell our products

Our Ethics

- We do not test our products on animals regardless of the regulatory requirements we encounter
- We always seek the best value and quality from every constituent ingredient
- We endeavour to ensure that all our suppliers mirror our values and understand our principles

Our Ethos – Who will you be Today?

- To give customers the ability and the flexibility to style themselves based on who they want to be
- To engage customers by interacting with them directly using a variety of media platforms
- To make our products easily available to our customers
- To empower our customers by seeking their feedback, interaction and views

Headline Results

Headline results for the year to 31 December 2018

Warpaint London plc ("Warpaint", the "Company" or the "Group") is made up of two divisions.

The largest division sells own brand cosmetics under the lead brand names of W7 and Technic. W7 is sold in the UK primarily to discount retailers and internationally to local distributors or retail chains. The Technic brand is sold in the UK and the rest of Europe with a significant focus on the gifting market, principally for high street retailers and supermarkets. In addition, this division supplies own brand white label cosmetics produced for several major high street retailers. The Group also sells cosmetics using the smaller own brand names of Man'stuff, Body Collection, Vintage, Outdoor Girl, Very Vegan, Chit Chat, Smooch, Copy Cat and Taxi.

The second division trades in close-out and excess stock of branded cosmetics and fragrances from around the world.

On 2 August 2018, the Group acquired Marvin Leeds Marketing Services, Inc. ("LMS") for a consideration of £1.6 million ($2.08 million). LMS sells the Group brands as well as close-out to their existing US customers. In the previous year on 30 November 2017, the Group acquired Retra Holdings Ltd ("Retra") for £17.8 million. This annual report has been prepared in accordance with IFRS as adopted by the European Union, which requires use of acquisition method for business combinations. The reported figures for 2017 only included the results of Retra for one month post acquisition, therefore in order to aid shareholders' understanding of the underlying performance of the business we have focused our comments on the consolidated statement of comprehensive income for the year ended 31 December 2018 compared with the consolidated statement of comprehensive income for the year ended 31 December 2017, with reference where appropriate to "like for like" numbers which include the Retra business for the whole of 2017. Like for like numbers have not been adjusted for the business of LMS in 2017. LMS was a customer of the Group prior to acquisition and distributed the W7 brand throughout the period 1 January 2017 to 1 August 2018. The business conducted by LMS prior to acquisition is already included in the consolidated statements of comprehensive income for the years ended 31 December 2017 and 31 December 2018.

Headline results, shown below, represent the performance comparisons between the consolidated statements of income for the years ended 31 December 2017 and 31 December 2018.

The statutory consolidated statement of comprehensive income for the years ended 31 December 2017 and 31 December 2018, include the trade of the existing own brand and close-out businesses for the whole of each year, plus the trade of Retra from the acquisition date of 30 November 2017 only, and the trade of LMS from the date of its acquisition on 2 August 2018 only.

Statutory Results

	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Growth %
Revenue	**£48.5m**	£32.5m	49.2
Profit from operations	**£4.9m**	£6.9m	-29.0
Profit from operations margin	**10.1%**	21.5%	
PBT	**£4.7m**	£6.9m	-31.9
EPS	**4.7p**	8.3p	-43.4
Net cash	**£1.3m**	£2.0m	

Adjusted Statutory Results

	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Growth %
Revenue	**£48.5m**	£32.5m	49.2
Adjusted profit from operations	**£8.3m***	£7.7m*	7.8
Adjusted profit from operations margin	**17.1%***	23.7%*	
Adjusted PBT	**£8.2m***	£7.7m*	6.5
Adjusted EPS	**9.1p***	9.6p*	-4.2
Net cash	**£1.3m**	£2.0m	

* Adjusted for £0.16 million of LMS acquisition costs, plus £0.10 million of Retra acquisition costs, plus £0.08 million of Retra staff restructuring costs incurred in the year (2017: £0.4 million of Retra acquisition costs) and £2.3 million of amortisation of intangible assets (2017: 0.5 million) and £0.8 million of Retra impairment costs in the year (2017: Nil)

Highlights

- Revenue increased by 49.2% to £48.5 million (2017: £32.5 million)
- Adjusted profit from operations £8.3 million (2017: £7.7 million)
- Adjusted earnings per share 9.1p (2017: 9.6p)
- Net cash at the year end of £1.3 million (31 December 2017: £2.0 million)
- Cash generated from operating activities £4.3 million (2017: 4.8 million)
- Final dividend for the year of 2.9p per share, total dividend for the year of 4.4p per share (2017: 4.0p per share)
- Strategic acquisition of US distributor LMS, for US$2.08 million (£1.6 million) on 2 August 2018
- International revenue increased by 59.2% to £25.1 million (2017: £15.8 million)
- UK revenue now 48% of total business (2017: 52%) as strategic emphasis on international expansion continues
- Close-out revenue increased by 34.3% to £7.6 million (2017: £5.7 million)

Clive Garston

Chairman's Statement

2018 was a challenging year for the Company as it faced continuing uncertainty caused by the prospect of Brexit, a fluctuating Sterling exchange rate and a severe decline in retail sales on the UK high street.

During the year Retra was integrated into the enlarged Group and Marvin Leeds Marketing Services, Inc. ("LMS"), our US distributor was acquired. The acquisition of LMS will accelerate our growth into the largest colour cosmetics market in the world and provide the Group with dollar income. A new showroom was opened in Manhattan which is beginning to drive increased sales and US prospects are encouraging. US sales were up 108% compared to 2017. EU sales in 2018 were also ahead with Spain, in particular, trending up.

At Retra we have concentrated on introducing all year round product, so that gifting is not so dominant for that business and we expect results for the first half of 2019 to reflect this.

Results

Like for like numbers and adjusted numbers will be quoted where appropriate in this annual report in order to give shareholders clarity in understanding the results for the year. Like for like numbers include the trade of Retra for the whole of 2017, as if it had been part of the Group for the whole of that year. Like for like numbers have not been adjusted for the business of LMS in 2017 as it was the exclusive distributor for our W7 brand into the US in that year and therefore the business conducted through LMS is already included in the consolidated statement of comprehensive income for the year ended 31 December 2017. Adjusted numbers exclude acquisition costs, staff restructuring costs, amortisation in relation to acquisitions and impairment costs.

Adjusted profit before tax was £8.2 million (2017 £7.7 million) on revenue of £48.5 million (2017 £32.5 million) with basic earnings per share of 4.7p (2017 8.3p) and adjusted earnings per share of 9.1p (2017 9.6p). Net cash at 31 December 2018 was £1.3 million (31 December 2017 £2.0 million after having paid in the year £1.6 million for LMS, emphasising the Group's strong cash generation. Sales margin reduced in 2018 and our priorities are to return to previous margins and increase earnings. The main reason for the reduced margin was the increased proportion of Group sales attributed to the close-out division. Sales from the close-out division are at a lower margin historically than of our own brands.

The UK is Warpaint's largest market and accounted for 48% of Group sales in 2018. Sales in the closeout division were 34% ahead of 2017, and Group sales outside of the UK were ahead of 2017 by 8% on a like for like basis.

Dividend

In accordance with the Group's progressive dividend policy, the board is pleased to recommend a final dividend of 2.9p per share (2017 2.6p) which, if approved by shareholders at the AGM, will be paid on the 1 July 2019 to shareholders on the register at 14 June 2019. The shares will go ex-dividend on the 13 June 2019.

Board and People

I would like to thank my fellow board members and all the Group's employees for their dedication and commitment throughout the year. Notwithstanding the challenges in 2018, Warpaint remains a progressive, energetic and dynamic company and this is driven by the commitment of its employees.

Sally Craig joined the board as General Counsel & Company Secretary on 17 September 2018. Sally has been Warpaint's Company Secretary since February 2017. She is a solicitor, has previously practised as a corporate lawyer and has many years' experience providing company secretarial services to public and private companies in the UK. This appointment provides additional skills and experience to the board.

Nowhere is the culture of Warpaint demonstrated more than by the dedication and ambition of the executive directors and senior management. They are determined to drive Warpaint forward. The non-executive directors, Keith Sadler and Paul Hagon make a very meaningful contribution to the board and I regard it as a privilege and pleasure to work alongside them all.

As outlined in my statement last year a LTIP has been introduced to incentivise senior employees.

Annual General Meeting

The annual general meeting will be held on 21 May 2019 at 11am at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF. I look forward to meeting all shareholders who are able to attend.

Outlook

Despite the challenges of 2018 I believe the Company is well placed for the future. Whilst trading conditions remain difficult in the UK, we have had a promising start to the current financial year. We continue to grow internationally and expect our sales outside the UK to be an ever greater proportion of Group sales going forward. In particular, I am encouraged by the sales of the Retra brands, which are growing strongly compared to 2018 and, our growth in the US. As with all International businesses results for 2019 may be impacted by prevailing exchange rates.

The Group has a sound financial footing with a strategy for growth across all our markets. The board is cautiously optimistic for the 2019 financial outturn, with growth in sales and EBITDA anticipated.

Clive Garston
Chairman
10 April 2019


Joint Chief Executives' Statement

Sam Bazini Eoin Macleod

2018 was a challenging year for Warpaint nevertheless, at the same time the business has shown resilience and adapted to the changing market conditions, managing to increase international sales by 8% on a like for like basis.

Our strategy of producing a wide range of high quality cosmetics at an affordable price has remained our key focus and we are very pleased with the reaction that our expanding product range received during the year.

With the acquisition of Retra in November 2017 now fully integrated into the Group, sales of own brand colour cosmetics accounted for 79% of revenue (2017: 82% on a like for like basis), the small drop in overall percentage is because of the increase in close-out opportunities bought and sold in 2018. The own brand cosmetics business remains the primary strategic focus of the Group.

The Group's lead brand remains W7 with sales in 2018 being 48% of total revenue (2017: 51% on a like for like basis). In the UK, revenue of W7 was down 24% due to the tough trading conditions in the high street as footfall continues to decline and certain retailers struggle to survive in their present form. We believe the consumer is behaving (possibly because of Brexit fatigue) as if the UK economy is in recession, despite real wage growth and high employment levels. This is affecting spending patterns, shopping behaviour and consumer attitude. In our opinion the UK high street was also impacted in 2018 by the cold winter with snow in February and the record hot summer. We have implemented a strategy in the UK which we believe will increase sales of the W7 brand in the medium term. Whilst the UK was challenging, the W7 brand continued to grow in Europe up 15% and the US up 67%, in the Rest of the World if we adjust for the timing of a large order to Australia in December 2017, sales were flat year on year.

The Retra business has a large proportion of gifting within its sales mix, in 2018 this was 53% of Retra sales (2017: 54%). UK high street conditions meant that some retailers reduced forecasts and orders for Christmas gifting and as a consequence sales were down in the year at £9.4 million, compared to £10.1 million in 2017. We have taken steps to improve the sales of the all year round cosmetics sold under the Retra brands, and have already seen an improvement in the start of 2019.

The close-out division represented 16% of the overall revenue of the Group (2017: 11% on a like for like basis). Whilst not a core focus for the Group, this side of the business provides a significant source of intelligence in the colour cosmetics market and access to new market trends. Although close-out is less significant for the Group's strategy, it has had a very good year with sales ahead of 2017 by 34% to £7.6 million. There are more close-out opportunities available due to the current retail climate in the UK and from contacts acquired in the US after purchasing LMS.

We announced, on 23 April 2018, that Warpaint had been awarded the *Queen's Award for Enterprise – International Trade*. This is a very prestigious award of which we are very proud and is testament to the efforts we have made in recent years on international expansion. We intend to continue to drive export sales to new and existing markets and develop our increased portfolio of brands.

We continue to use manufacturing partners in China and Europe for our own brand business giving us the flexibility to choose those manufacturers we feel produce the best product for the best price, and meet our legal and ethical compliance requirements. Helping in this process is the Hong Kong based subsidiary sourcing office (acquired as part of the Retra transaction) and its locally based China subsidiary (Jinhua Badgequo Cosmetics Trading Company Ltd) with local employees able to explore new factories and oversee quality control and ethical sourcing from new factories. The China company has started to conduct sales locally in China and Hong Kong with sales for the year of £0.3 million (2017: £0.2 million).

The W7 brand is supported by an informed customer base, driven by the success of beauty blogs, celebrity endorsement and social media. We have applied the same approach during the year to the Retra brands with Technic and Man'stuff now having their own bespoke e-commerce sites. A similar marketing strategy has been deployed for our US e-commerce site launched during 2018, with sales made in local currency and with local fulfilment in place.

Acquisition of Marvin Leeds Marketing Services, Inc. ("LMS")

On 2 August 2018 the Group acquired its US distributor, LMS, for US$2.08 million in cash (£1.6 million). Prior to the date of acquisition two thirds of LMS revenue was from distributing W7 products, the remainder being the sale of other branded cosmetics through its close-out activities. LMS sells W7 to retail groups in the US and Canada including TJ Maxx and Winners, and has recently opened new accounts for the

W7 brand with Century 21, Forever 21 and Macys Backstage. The US is the largest colour cosmetics market in the world and developing sales into the region is a strategic goal for the growth of our brands. We have relocated the sales office of LMS to the heart of Manhattan, New York, with a showroom displaying all the Group brands and situated in a building where other health and beauty businesses are located. This will be more convenient for buyers and should help increase sales. We have made an encouraging start in the first quarter of 2019 with sales year on year made by LMS up 36% and, in particular for the W7 brand, up 38%.

Strategy

In early 2018 the board adopted a three year strategic plan for the business, which is measured, monitored and reviewed regularly. The plan is designed to drive shareholder value and has defined targets for sales, EBITDA, earnings per share, cash and share price. Recently the strategic plan has been amended by the board and includes six revised key strategic priorities. Understanding and following the six key strategic priorities will help deliver the expected growth in the business:

1. Continue to develop and build our brands

We continue to build our major brands, by utilising brand ambassadors, bloggers and vloggers to engage with our target audience. Much of this is done through social media campaigns to educate and interact with our loyal brand users.

Other brands will continue to be used for customer bespoke orders and we are actively seeking sales partnerships with high street retailers. The bestselling lines in each range and brand have been identified to be launched in trial programmes in new retail outlets with the goal of delivering increased presence in the high street and grow market share.

2. Provide New Product Development ("NPD") that meets consumers changing needs and tastes

A key focus of the business and NPD team is to supply our customers with a wide range of affordable, high quality cosmetics. The NPD team is made aware of our required margin and minimum sales revenue per item before development begins, but affordability and quality remain important drivers in the development process.

While most of our brand ranges include core colour cosmetic items, we add on trend items and colourways developed by our growing NPD team, especially in our all year round ranges of our lead brands, W7 and Technic. This on trend and quick to market model is something our customers demand and expect from us.

Our Body Collection brand is being developed further to cater for the growing mature female cosmetics market, the Man'stuff brand allows us the opportunity to develop a growing male grooming market and our Very Vegan range continues to grow as a vegan lifestyle or product choice becomes more prevalent.

With our lead brands we are exploring opportunities into new sales channels and product categories e.g. tattoos, body scented sprays, and health and beauty accessories.

3. Grow Market Share in the UK

Following the Retra acquisition, we have started developing the combined customer base of the enlarged business to sell all brands to all customers in the UK and overseas. Over 75% of the UK market remains unexploited by us, in particular pharmacy chains and several high street multiples and grocers. Expanding the UK customer base is a focus of management and plans are in place to gain market share.

4. Grow Market Share in the US and China

The US strategic goal is underway with the acquisition of LMS; this locally based resource together with the US e-commerce site will enable a more rapid expansion in the US. A more detailed sales and marketing plan for growth in the US is currently in development, including the use of a locally based digital PR agency.

In China, we are conducting business locally through our China subsidiary company. Sales are made to our exclusive distributor after individual products are registered with the authorities in China. The distributor is overseeing local promotional and social media based marketing campaigns. We participate in and contribute to marketing activity and provide online content to support our brands through the distributor. We are continuing to register products for sale in China in order to grow our total offering and increase sales.

5. Develop an online / e-commerce strategy for online brand development and sales

Of W7's target customers, 45% are buying colour cosmetics online. We are currently considering a differentiated own brand offering which will be available exclusively online.

6. Develop the appropriate Organisational Structure and People Plan

Our roles have been further defined to avoid overlap of time and effort as the business continues to grow.

We continue to review the structures, resources and capabilities in the business with the objective of delivering the three year strategic plan, and communicate the plan throughout the Group to key staff.

Joint Chief Executives' Statement (continued)

Brands

During 2018 Warpaint continued to focus on the development of its own brands.

Our Very Vegan range launched in 2017 has continued to sell well with revenue of £0.5 million in 2018 (2017: £0.3million). For 2018, this range included 22 Stock Keeping Units ("SKUs") and for 2019 we are adding 8 SKUs as we continue to build the range and provide greater variety for the consumer. We are also updating and modernising the packaging to be more eco-friendly.

Outdoor Girl now has 22 SKUs in its range and there are 50 new SKUs planned for 2019 of which 35 are an assortment of nail varnish colours, plus further eye and lip products. Sales of Outdoor Girl were £0.2 million in the year (2017: £0.2 million). We believe there is an opportunity in the value sector in the US for a larger range of Outdoor Girl given that the pricing at retail is less than the lead brand W7.

The W7 range has now grown to 1115 live SKUs (2017: 762). The increase is partly from additional new ranges i.e. face masks, and from providing existing product as carded single item SKUs (ideal for selling through certain grocery and multiple retailers).

Warpaint also own the brands Smooch, Copy Cat and Taxi which are used occasionally for bespoke one off orders.

The total SKU count for all the Retra brands (Technic, Body Collection, Man'stuff, Vintage and Chit Chat) was 762 live SKUs (2017: 672). Retra has a wide gifting range and this is redeveloped and redesigned each year. There were 151 SKUs in the gifting range for 2018.

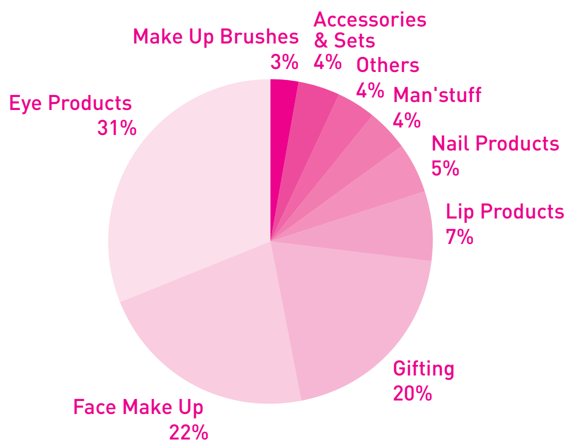
Group own brand sales	**2018**	2017 (like for like)
W7 brand	**59%**	61%
Technic brand	**27%**	26%
Other own brands	**14%**	13%
	100%	100%

Products

W7's largest selling product categories are eye products, face makeup and lip products, which together represented 80% of the W7 brand revenue in 2018. For the Retra portfolio of brands the largest selling product categories are gift sets, face makeup and eye products which together represented 76% of Retra business sales in 2018.

The 12 months to 31 December 2018 product sales split for Group own brands is shown below:

2018 Group Own Brand Sales by Product



Customers & Geographies

In 2018 our top ten customers represented 49% of revenues (2017: 55%). Group sales are now made in 67 countries (2017: 62 countries).

US

We have continued to see growth in the US through our now acquired distributor LMS. Group sales for all our brands and close-out sold into the US were up in the year, increasing 102% compared to 2017 (in local currency the increase was 99%, the difference being due to exchange rates). Sales of W7 into the US were up 67% in the year compared to 2017. Current customers include Century 21, Forever 21, Macys Backstage and TJ Maxx.

Europe

Group sales in Europe increased by 111% compared to 2017. On a like for like basis including sales made by Retra for the whole of 2017 sales increased in Europe by 10%. This increase was predominantly for our lead brand W7 which was 15% up in the year, with significant growth in Spain and Scandinavia.

Rest of the World

Sales in our Rest of the World region for the Group are down by 41% in the year compared to 2017. This was due to the timing of a large order supplied to our Australian distributor for W7 late in 2017, if we adjust for this order sales were flat year on year across the Group. We expect sales to the Rest of the World region to improve in 2019.

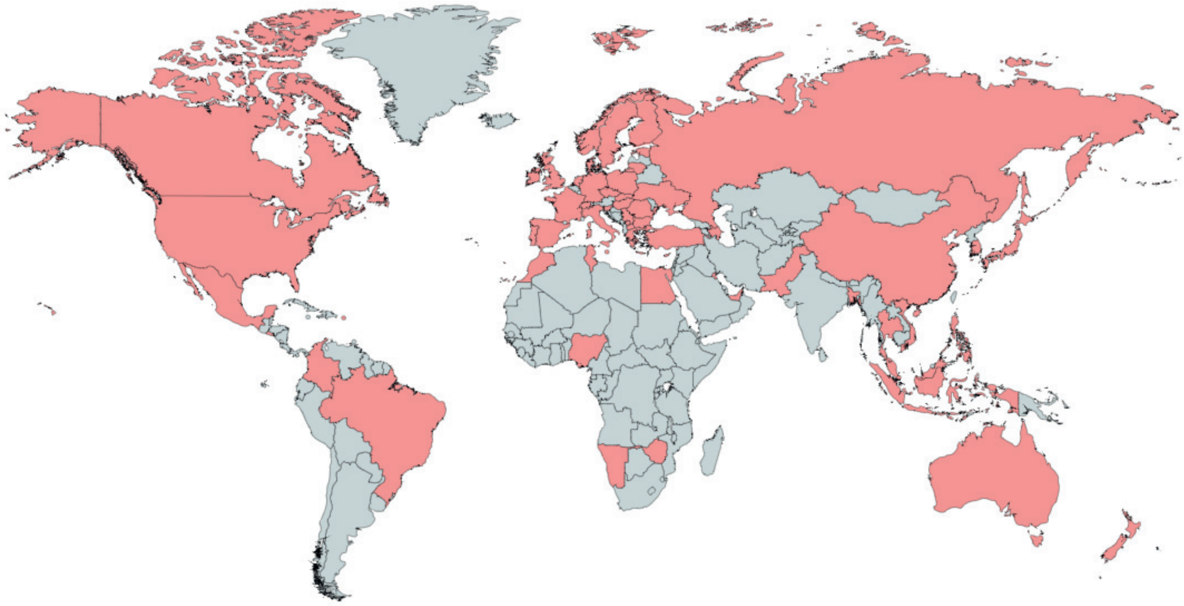
UK

Trading conditions in the UK remain challenging because of the UK high street slow down and ongoing Brexit anxiety. Group sales in the UK were down by 13% in the year on a like for like basis compared to 2017. The W7 brand was down in the UK by 24%, and Retra brands collectively were down 9% in the UK on a like for like basis.

Key

Country's where Group own brands are sold

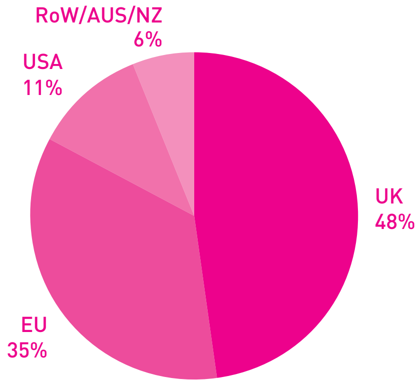
Country's where Group own brands are not yet sold



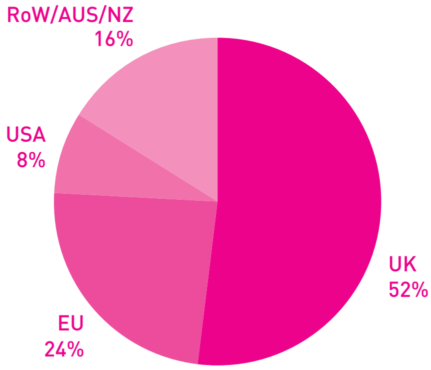
Joint Chief Executives' Statement (continued)

The 12 months to 31 December 2018 and 31 December 2017 regional sales split for Group total sales is shown below:

Group Sales by Region 2018



Group Sales by Region 2017



Summary

We are extremely grateful to our employees for their continued loyalty, commitment and hard work during 2018, a year that has seen yet another big change for Warpaint following the acquisition of Retra at the end of 2017, and as we welcomed the LMS team into our enlarged Group.

Sam Bazini & Eoin Macleod
Joint Chief Executive Officers
10 April 2019

Financial Review

Neil Rodol

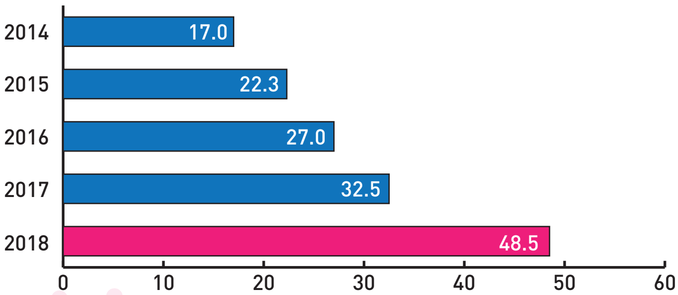
Our KPIs of revenue and adjusted profit before tax improved in the year by 49% and 7% respectively (on a like for like basis including the Retra business for the whole of 2017 revenue fell 3%). We remain focused on margin, being net debt free, generating cash and delivering a progressive dividend policy.

In order to aid shareholders' understanding of the underlying performance of the business we have focused our comments on the consolidated statement of comprehensive income for the year ended 31 December 2018 compared with the consolidated statement of comprehensive income for the year ended 31 December 2017, with reference where appropriate to "like for like" numbers which include the Retra business for the whole of 2017. Like for like numbers include the trade of Retra for the whole of 2017 as if it had been part of the Group for the whole of that year. Like for like numbers have not been adjusted for the business of LMS in 2017. LMS was a customer of the Group prior to acquisition and distributed the W7 brand throughout the period 1 January 2017 to 1 August 2018. The business conducted by LMS prior to acquisition is already included in the consolidated statements of comprehensive income for the years ended 31 December 2017 and 31 December 2018.

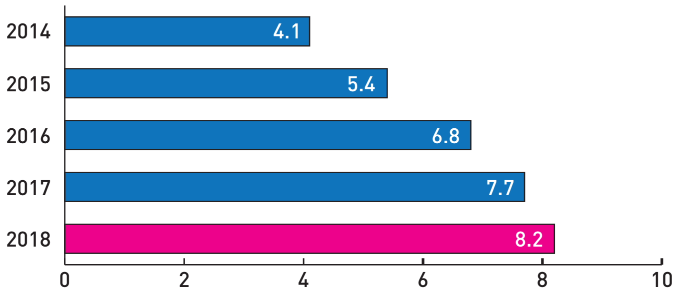
Headline results, shown below, represent the performance comparisons between the consolidated statements of income for the years ended 31 December 2017 and 31 December 2018.

KPIs

Revenue (£m)
2018: £48.5 million + 49%



Adjusted profit before tax* (£m)
2018: £8.2 million +7%



*Adjusted for £0.16 million of LMS acquisition costs, plus £0.10 million of Retra acquisition costs, plus £0.08 million of Retra staff restructuring costs incurred in the year (2017: £0.4 million of Retra acquisition costs) and £2.3 million of amortisation of intangible assets (2017: 0.5 million) and £0.8 million of Retra impairment costs in the year (2017: Nil)

Financial Review (continued)

Acquisitions

On 2 August 2018, the Group acquired its US distributor LMS. In the year to 31 December 2017 LMS had revenue of US$5.9 million and profit before tax (adjusted for non-recurring costs after completion of the acquisition) of approximately US$0.4 million. Net Assets, adjusted for a capital reorganisation on completion of the acquisition, as at 31 December 2017, were US$1.1 million. The final consideration paid in cash was $2.08 million (£1.6 million) after applying a net assets adjustment to the purchase price. The final net assets position acquired was $0.6 million. The US is the largest colour cosmetics market in the world and developing sales into the region with the help of LMS is a strategic goal for the growth of the business. (see note 8).

Revenue

Group revenue for the year grew by 49.2% from £32.5 million in 2017 to £48.5 million in 2018. Like for like revenue fell by 3.2% from £50.1 million in 2017 to £48.5 million in 2018. Like for like revenue for 2017 includes £17.6 million from the Retra business being the sales made from 1 January 2017 to 30 November 2017, prior to its acquisition.

Internationally, like for like revenue grew 8.0% from £23.2 million in 2017, to £25.1 million in 2018. Our international growth strategy remains on track and in 2018 we received the *Queen's Award for Enterprise – International Trade* as testament to this.

Strategy for growth includes continuing to develop and build our brands, provide new product development that meets consumers changing needs and tastes, to grow market share in the UK, US and China, develop an online strategy for brand development and sales and, to put in place appropriate organisational structure and people in the business. A detailed commentary on our sales growth strategy and trading performance is included in the CEO's report.

The sales of W7 branded product fell by 9.3% from £25.5 million in 2017 to £23.2 million in 2018. The decline in sales was partly due to the UK where the market remains challenging, but also the timing of a large order for Australia received at the back end of 2017 which was not repeated in 2018. However, in the US and Europe there were significant increases for the W7 brand, with sales ahead by 66.5% and 14.8% respectively.

The own brands acquired with Retra in November 2017 contributed sales of £14.9 million in the year, this was down 3.5% on a like for like basis on 2017. Retra in particular, because of their high proportion of Christmas gifting, suffered from reduced uptake against original forecasts and orders from some UK high street retailers, with sales in the UK down 8.7% on a like for like basis. The white label business of Retra was also down in the year 19.9% to £2.7 million on a like for like basis. The white label business is traditionally cost competitive and Retra choose which projects to embark on based on commercial viability, in particular margin. In 2018 it was decided not to tender for certain projects when the margin went below the minimum requirement. Retra business to Europe is the only other region of significant sales and this was down 12.9% on a like for like basis and most of this decline was from the lower white label business.

The issue in the UK high street is demonstrated when we look at Christmas gifting across the Group which is significant and mostly delivered to UK customers. Sales for Christmas gifting in the year were £11.0 million compared to £12.8 million in 2017 on a like for like basis. At the half year, we reported a growing order book totalling £8.2 million, compared to £7.2 million at 30 June 2017 on a like for like basis. The expected uplift, experienced in prior years from UK customers on the initial half year order book, did not materialise.

The close-out business revenue grew by 34.3% from £5.7 million in 2017 to £7.6 million in 2018.

Product Gross Margin

Gross margin for the Group decreased by 3.3% from 38.8% to 35.5%. The main reason for the reduced margin was our margin mix across the Group. Sales from the close-out division are at a lower margin historically than our own brands, and close-out sales at a lower margin were a greater proportion of total sales than we expected for the year. In addition, the lower margin sales from Retra brands in particular gifting were not included in 2017 until the date of acquisition on the 30 November 2017. Sales at LMS since acquisition were also below the W7 margin as this business changed from being a distributor on commission only basis.

We are not experiencing cost pressure on our manufactured pricing and making good use of our Hong Kong buying office to ensure this continues. Currency pressure due to Brexit is mitigated with a discount mechanism linked to the US dollar exchange rate from our key supplier in China, by moving production to new factories of equal quality to retain or improve margin, and from US dollar revenue which continues to provide a natural hedge. We remain focused on improving gross margin in both our own brand and close-out businesses and now in the enlarged Group including Retra and LMS.

W7 margin excluding sales made by LMS after acquisition was down 0.9% to 39.6% for the year, this was the effect of currency translations in the year with the gain on currency shown in overheads.

The Retra margin for the year decreased 0.6% on a like for like basis to 34.7%. Currency, whilst a concern for Retra, is built into the costing margin at the start of the year when selling in advance to customers especially for the gift offering, with any dollar or euro exposure covered at the time of receiving orders. The reason for the fall in margin is the adoption of the Group stock ageing policy in the year, which addressed some small value older stock SKUs that needed selling off or providing against in the year and sales commissions payable for the first time from using the integrated sales network of the Group.

Gross margin for LMS was low at 3.2% on sales of £2.4 million. Up to the date of acquisition this business earned commission on W7 sales, and Warpaint would sell stock to its US distributor at full margin, effectively the price charged to the customers in the US. Since the acquisition, commission is not charged back to Warpaint, so the majority of sales made by LMS of its stock holding on hand at the date of acquisition were sold through at little to no margin. As the initial stock holding is sold through, margin will recover to similar levels to the rest of the Group and we have seen this happen as 2019 starts.

Close-out margin improved 4.3% to 35.4% for the year, much of this gain was from buying several large parcels in the year where the opportunity, margin and capital commitment were attractive.

Operating Expenses

Total operating expenses before exceptional items, amortisation and impairment costs, depreciation, foreign exchange movements and share based payments increased by £4.0 million to £8.6 million in the year. This increase was from the addition of Retra operating expenses for the full year (£3.8 million) and for the first time LMS, from the date of acquisition (£0.2 million).

The most significant costs in the Group are wages and salaries of £5.0 million, rent and rates of £1.1 million and PR and marketing for our brands of £0.6 million. In 2017 on a like for like basis these costs were, £4.8 million, £1.0 million and £0.7 million respectively. The increase in wages is inflationary plus the cost of auto enrolment across the Group, the increase in rent and rates is in our Retra business which leased an extra warehouse facility rather than using third party logistics to fulfil orders, and the decrease in PR and marketing is a function of not having a long term brand ambassador on contract for the W7 brand and instead using ad hoc PR activity across a broader range of celebrity influencers.

Warpaint remains a business with most operating expenses relatively fixed and evenly spread across the whole year. We continue to monitor and examine significant costs to ensure they are controlled and strive to reduce them.

In addition, the increased scale of the business has given the Group increased buying power.

Profit Before Tax and Exceptional Items

Group profit before tax was £4.7 million compared to £6.9 million in 2017, a fall of 32%. Adding back amortisation of intangibles, impairment charges, depreciation charges, exceptional items and finance costs would adjust profit before tax to £8.8 million in 2018, compared to £7.9 million for 2017 on the same basis, an increase of 11%. The increase in profit before tax for 2018 is due to the profits included for the full year for the first time from the Retra business.

Exceptional Items

Exceptional costs in 2018 included £0.16 million of acquisition costs as they were one off legal and professional fees incurred in acquiring LMS on 2 August 2018, plus £0.10 million of professional fees relating to the acquisition of Retra in 2017, plus £0.08 million of staff restructuring costs at Retra (2017: £0.40 million of acquisition costs as they were legal and professional fees and commissions incurred in acquiring Retra on 30 November 2017. Total acquisition costs were £1.2 million of which £0.8 million related to the issue of new shares to fund the purchase of Retra and these were charged against the share premium account).

Tax

The tax rate for the Group for 2018 was 24.5% compared to the UK corporation tax standard rate of 19.0% for the year. Some of the costs of the acquisition of Retra and LMS have been disallowed for tax purposes, as have the impairment charge for Retra this year which has

Financial Review (continued)

increased the effective tax rate. Since the acquisition of LMS, the Group is exposed to tax in the US at an effective rate of approximately 25% and in other jurisdictions the Group operates cost centres, but these are not materially exposed to changes in tax rates. We would expect the tax rate on adjusted profits to be approximately 19% in 2019 and falling in line with the UK Government measures to reduce corporation tax to 17% by 2020.

Earnings Per Share

The statutory basic earnings per share was 4.66p in 2018, a decrease of 44.1% on the 8.34p achieved in 2017.

Adjusted earnings per share before exceptional items, amortisation costs and impairment charges was 9.1p in 2018, a decrease of 5.2% on the 9.6p achieved in 2017.

Dividends

The board is recommending a final dividend for 2018 of 2.9 pence per share, making a total dividend of 4.4 pence per share of which 1.5 pence per share was paid on 16 November 2018 (2017: Total dividend of 4.0 pence per share, of which the interim dividend was 1.4 pence per share and the final dividend was 2.6 pence per share). The dividend for the year is covered 2.1 times by adjusted earnings per share.

Long Term Incentive Plan ("LTIP") & EMI Share Options

On 24 September 2018, the Company announced the implementation of a new LTIP with initial grants to six senior team members including Sam Bazini and Eoin Macleod, the Joint Chief Executive Officers, and Neil Rodol, the Chief Financial Officer. The LTIP has been established to incentivise management to increase shareholder value over the long term. Share options were granted with an exercise price of 254.5p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share and Total Shareholder Return performance conditions measured over a period of up to 5 years. The entire award represents 5.0% of the current issued share capital of the Company.

On 29 June 2017 EMI share options were granted over 277,788 ordinary shares of 25p each in the Company under the Warpaint London PLC Enterprise Management Incentive Scheme. The options provide the right to acquire 277,788 ordinary shares at an exercise price of 237.5p per ordinary share.

The LTIP and EMI share options had no dilutive impact on earnings per share in the period. The share-based payment charge of the LTIP and EMI share options for the year was £0.12 million (2017: £0.05 million) and has been taken to the share option reserve. (see Note 21).

Cash Flow and Cash Position

Net cash flow generated from operating activities was £4.3 million (2017: £4.8 million), after payment of the £0.3 million (2017: £0.4 million) exceptional items previously referred to. The Group's cash balance increased by £0.6 million to £4.0 million in 2018 (2017: £3.4 million). The cash generated was principally used to make dividend payments in the year, and to pay from cash the consideration for the acquisition of LMS.

Capital expenditure requirements of the Group remain modest and we expect it to continue to be so. In 2018 £0.39 million (2017: £0.56 million) was spent on display stands for use in store by customers, on refurbishment works necessary as a one off cost in the new leased warehouse for Retra and general fixtures and plant upgrades.

Balance Sheet

Management are continually monitoring trade receivables and stock levels to avoid working capital lock up as the business continues to grow.

Trade receivables are monitored by management to ensure collection is made to terms, to reduce the risk of bad debt and to control debtor days. At the year end trade receivables were £11.1 million (2017: £12.1 million), the decrease on 2017 is mainly due to the timing at the back end of 2017 of a large order for one customer in Australia that has not repeated at the same time in 2018. In 2018 there was a bad and doubtful debt credit of

£0.008 million because of the collection of debts previously provided for in 2017 (2017: £0.052 million). The provision at the year end for bad and doubtful debts carried forward is £0.11 million, 1.0% of gross trade receivables (2017: £0.17 million, 1.4%).

Stock was higher at the year end at £15.5 million (2017: £11.6 million), this increase was due to the increase in range offering across the Group and the acquisition of LMS who hold stock of our brands locally in the US. The provision for old and slow stock was £0.11 million, 0.7% at the year end (2017: £0.11 million, 1.0%). The reduction in provision percentage reflects the close attention of management in dealing with slower stock items as they occur and on stock purchase order levels that are reasoned. Whilst provisioning for older and slow stock is prudent, the reality is that any such items are generally sold through our close-out division without a loss to the business.

On acquiring Retra in 2017 the Group took on their debt of £8.7 million being £7.6 million of invoice and trade finance facilities, term loans of £0.3 million and HP contracts of £0.8 million. At 31 December 2017, after repaying some of these amounts through cash flow, £1.4 million of debt remained outstanding of which £1.1 million related to term loans and HP contracts. In 2018 a further £0.3 million of the term loans and HP contracts has been repaid leaving £0.8 million outstanding at the year end. The remaining loans and HP contracts are being repaid to terms in order to avoid unnecessary early settlement charges. At the year end £1.9 million of invoice finance remained outstanding and was repaid in full February 2019.

Working capital increased by £3.6 million in the year (2017: £11.3 million) with the main components an increase in stock of £3.8 million, a decrease in trade and other receivables of £0.9 million, and an increase in cash at the year end of £0.7 million.

Free cash flow remained strong at £3.9 million (2017: £4.2 million).

The Group's balance sheet remains in a very healthy position being net debt free. Net assets totaled £41.0 million at 31 December 2018, an increase of £0.6 million from 2017. The impairment charge of £0.8 million on the Retra acquisition for the year has impacted retained profits leaving a smaller than expected surplus after payment of dividends, it is expected that the impairment is a one off charge and that the balance sheet will continue to grow from retained profits ongoing. The majority of the balance sheet is made up of liquid assets of stock, trade receivables and cash. Included in the balance sheet is £7.1 million of goodwill (2017: £7.5 million) and £9.5 million of intangible fixed assets (2017: £10.7 million) arising from acquisition accounting.

Foreign Exchange

The Group imports the majority of its finished goods from China paid for in US dollars, which this year weakened on average against Sterling by 4% compared to 2017 ($1.341 v $1.289). Although Sterling has recovered a little in 2018 this is the second year following the Brexit referendum of a strong dollar. The Group has a natural hedge from sales to the US which are entirely in US dollars, in 2018 these sales were higher at $6.3 million (2017: $3.2 million). Together with the discount mechanism from our main supplier in China, sourcing product from new factories where it makes commercial sense to do so and by buying dollars when rates are favourable, we have been able to mitigate the effect of the strong US dollar against Sterling.

Neil Rodol
Chief Financial Officer
10 April 2019

Risk Management

Warpaint London is exposed to a variety of risks that can have financial, operational and regulatory impacts on our business performance. The board recognises that creating shareholder returns is the reward for taking and accepting risk. The effective management of risk is therefore critical to supporting the delivery of the Group's strategic objectives.

Currency/Foreign Exchange

Due to the Group's goods being manufactured overseas and its extensive export business, it both generates revenues and incurs manufacturing costs in foreign currencies. As a result, the Group is exposed to the risk that adverse exchange rate movements cause the value (relative to its reporting currency) of its revenues to decrease, or costs to increase, resulting in reduced profitability.

Reliance on Key Suppliers

In 2018 one key supplier from China was responsible for approximately 24% (2017: 44%) of the Group's own brand ranges of colour cosmetics. If there were some catastrophic event that reduced or stopped the supply from this key supplier then the Directors are able to place orders with other existing suppliers. However, this would take several months to implement and such an event would therefore have a material adverse effect on the Group's financial position, results of operations and future prospects.

Product Liability

All products are manufactured in facilities approved by relevant authorities. The ingredients in each product are compliant with and meet the relevant standards required by the markets to which the products will be sold into. There is however always the risk that an end user could have an allergic or other reaction to an individual product leading to the possibility of compensation claims and potentially damaging the good reputation of the Group's brands.

The Directors have every colour cosmetic item independently checked by a qualified chemist for compliance with EU legislation and maintain adequate product and public liability insurance so as to ensure that any claims have little impact on the Group's profitability.

Significant Customers

The Group has one customer in Spain with over 90 stores. In 2018 this customer represented 9.7% (2017: 5.4%) of own brand and close-out revenues, we currently have an excellent working relationship with this customer. Significant goodwill in our own brands has been built up by this customer. The Directors believe that, should the customer decide not to sell our brands, a large amount (if not all) of the existing business will be taken up by other retailers in Spain.

Location

The Group, half of its operations and assets are at one location in Iver, with the other half based in Silsden; if a fire were to befall either of the premises occupied by the Group, half of its assets might be destroyed or damaged and – although the Group has insurance cover in place – the Group's business, financial results and prospects might be negatively affected by such an event.

Brexit

The UK Brexit referendum decision to leave the EU has led to a period of economic and political uncertainty, which is likely to continue until the exit process has concluded and possibly thereafter. Brexit may continue to dampen consumer demand and impact Group customers on the UK High Street. The Group is closely watching developments in the Brexit process and adapting its strategy as the effect of Brexit becomes clearer.

Cyber Attacks

There is an increasing risk that cybercrime will cause business interruption, loss of key systems, loss of online sales, theft of data or damage to reputation. The Group regularly review and invest in the development and maintenance of our IT infrastructure, systems and security. We have in place disaster recovery and business continuity plans that are tested annually.

This Strategic Report was approved by the board on 10 April 2019 and signed on its behalf.

Neil Rodol
Chief Financial Officer
10 April 2019


The CHEEKY Trio
BRONZER • BLUSHER • HIGHLIGHTER
SOLAR GLOW
BRONZER • BRONZE SHIMMER • HIGHLIGHTER
ATOMIC APPLE
Lip Balm
SAUCY STRAWBERRY
Lip Balm
CHEEKY CHERRY
Lip Balm
RAVISHING RASPBERRY
Lip Balm
EYE WANT IT!
EYE SHADOW COLLECTION
BIG BLUSH
BIG BOLD BLUSHERS
BROW PARLOUR
THE COMPLETE EYEBROW GROOMING KIT
BLUSH WITH ME
COLOUR CUBES
BLUSH WITH ME
COLOUR CUBES
BLUSH WITH ME
COLOUR CUBES

Members of the Board

From left to right: Paul Hagon, Neil Rodol, Clive Garston, Sam Bazini, Sally Craig, Eoin Macleod and Keith Sadler

Board of Directors

Clive Garston (73), Non-Executive Chairman (Insider Committee (Chair), Remuneration Committee, Audit Committee)
Clive has been Non-Executive Chairman of the Group since November 2016. He has been a corporate lawyer for over 40 years specialising in corporate finance and mergers and acquisitions, and he is currently a consultant at DAC Beachcroft LLP. He has been on the boards of a number of public and private companies and has been the deputy chairman of a fully-listed company and chairman of a number of AIM companies. He has significant experience in small and medium quoted companies. He is a fellow of the Chartered Institute for Securities and Investment (CISI) and chairman of its corporate finance forum.

Sam Bazini (56), Joint Chief Executive Officer (Insider Committee)
On leaving school at 16, Sam started work in a cosmetics warehouse, supplementing his income by selling cosmetics directly to the public at numerous London street markets. Selling directly to the public gave Sam an invaluable insight into consumer needs and in 1981 at the age of 18, using £500 he had saved he set up his own business, buying and selling close-out and end of line cosmetics and fragrance. During the course of the next ten years, Sam and Eoin's paths crossed on numerous occasions, working intermittently with each other on a joint venture basis until they formally went into business together in 1992. Together with Eoin Macleod, Sam developed the business which resulted in the formation of W7.

Eoin Macleod (56), Joint Chief Executive Officer
Eoin's first introduction to the world of beauty was at the age of 14 through a Saturday job in an indoor market selling cosmetics and perfumes. After leaving college, Eoin decided to set up his own business selling fragrance directly to the public through London street markets as well as selling into the wholesale sector and then expanding into selling cosmetics. In 1992 he formally went into business with Sam, operating initially in the close-out cosmetics and fragrance industry. Together with Sam Bazini, Eoin developed the business which resulted in the formation of W7.

Neil Rodol (56), Chief Financial Officer (Insider Committee)
Neil joined the Group in August 2015, having previously been an adviser to the business for several years. He has overseen the introduction of new systems and procedures. He joined the board as Chief Financial Officer in November 2016. Over the last 17 years he has been involved in several corporate purchases and acquisitions. In 2006, he sold his publishing company to a quoted group and became the group licensing director; in 2014 he completed a management buyout. Neil trained as an accountant at BDO Stoy Hayward and holds an honours degree in Maths and Computer Science.

Sally Craig (58), Group Counsel & Company Secretary
Sally has been Company Secretary to Warpaint London plc since February 2017 and was appointed to the board in September 2018. She is a solicitor and has previously practised as a corporate lawyer. She has many years' experience providing company secretarial services to private and public companies in the UK including then AIM listed, Osmetech plc. She holds an honours degree in law from Manchester Metropolitan University.

Board of Directors (continued)

Paul Hagon (55), Non-Executive Director (Remuneration Committee (Chair), Audit Committee)
Paul joined the Group as a Non-Executive Director in November 2016. Having worked in the Grocery Sector for over 30 years in both wholesaling and major branded suppliers, Paul is currently providing consultancy services for a number of retail, manufacturing and wholesale businesses to assist with strategies, change programmes and the implementation of practical business plans. Prior to this, Paul has worked in selling, marketing and business management roles with Nestle and more recently, Palmer and Harvey, where his latter role was as Group Strategy and Development Director. Paul has also served as Chairman of the Association of Convenience Stores for whom he had also been a board Member for 20 years.

Keith Sadler (60), Non-Executive Director (Audit Committee (Chair), Remuneration Committee)
Keith joined the Group as a Non-Executive Director in November 2016. He is also a non-executive director of TLA Worldwide plc, a global sports management and events business, for which he chairs the audit committee. He was formerly chief financial officer of A Spokesman Said Limited, a radio station operating under the name Love Sport and an online price comparison site and, until December 2014, chief financial officer of Dods Group PLC, a political communications business, and formerly chief operations officer and group finance director of WEARE 2020 plc. Prior to this he was chief executive and group finance director of SPG Media Group plc, a marketing services business, group finance director of The Wireless Group and two quoted regional newspaper publishers; News Communication and Media plc and Bristol United Press plc. Before this he was treasurer of Mirror Group Newspapers plc. Keith is a chartered accountant and holds an honours degree in economics from the University of Kent.

Corporate Governance Report

Chairman's Introduction

I am pleased to introduce the Corporate Governance Report for the year ended 31 December 2018. As an AIM listed company, we recognise the importance of sound corporate governance in supporting and delivering the strategy of the Company and its subsidiaries (together the "Group"). This involves managing the Group in an efficient manner for the benefit of its shareholders and other stakeholders whilst maintaining a corporate culture which is consistent with our values. The Company adopted the QCA Corporate Governance Code ("QCA Code") on 25 September 2018 and the Company's Corporate Governance Statement is available to view on the Company's website at www.warpaintlondon.com

The board of directors is responsible for the long term success of the Company and, as such, devises the Group strategy and ensures that it is implemented. The board is determined to ensure that the Company protects and respects the interests of all stakeholders and, in particular, is very focused upon creating the right environment for our staff. We want a happy workplace and we want our employees to be fully and properly rewarded and to feel that they are an integral part of the Warpaint family. A reward structure is therefore in place, which includes the grant of share options, enabling members of staff to participate in the growth of the Company, as appropriate. We want our suppliers, who are an essential part of the Company, to also feel part of the Warpaint family and we work closely with them to ensure that this is the case. Above all, the Company wishes to ensure that shareholders obtain a good return on their investment and that the Company is managed for the long-term benefit of all shareholders and other stakeholders. Appropriate Corporate Governance procedures will ensure that that is the case and reduce the risk of failure.

This section of the Report from pages 21 to 33 sets out our approach to governance and provides further information on the operation of the board and its committees and how the Group seeks to comply with the QCA Code. The instances where we do not comply are very few and explanations for non-compliance are provided in the report below.

Clive Garston
Chairman
10 April 2019

Strategy

The Group has established a strategy and business model which aims to promote long term shareholder value. The Group's strategy is reviewed each year and is set out in the Strategic Report on page 9.

The Board of Directors

The board is responsible for the long-term success of the Company. This includes formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions and, reporting to the shareholders.

The board currently comprises of three non-executive directors (including the Chairman), Clive Garston, Paul Hagon and Keith Sadler, and four Executive Directors, Sam Bazini, Eoin Macleod, Neil Rodol and Sally Craig. Sally has been Company Secretary of the Group since February 2017 and was appointed to the board on 17 September 2018 as General Counsel. She continues to act as Company Secretary. The board considers its composition to be appropriate at this stage of the Company's development, but this remains constantly under review as the Group grows in size. The two non-executive directors are independent. No single director is dominant in the decision-making process. At this stage in the Company's development the board does not consider that having a senior independent director is appropriate but this will also remain under review.

The board retains a range of financial, commercial and entrepreneurial experience and there is a good balance of skills, independence, diversity and knowledge of both the Company and the sectors in which it operates including cosmetics, retailing, finance and computing, innovation, international trading, ecommerce, marketing and public markets. The non-executive directors have been appointed on merit and for their specific areas of expertise and knowledge. This enables them to bring independent judgement on issues of strategy and performance and to debate matters constructively.

Directors attend seminars and other regulatory and trade events where appropriate to ensure that their knowledge and industry sector contacts remain current.

The Articles of Association of the Company (the "Articles") require that one-third of the directors must stand for re-election by shareholders annually in rotation and that any new directors appointed during the year must stand for re-election at the annual general meeting ("AGM") immediately following their appointment.

The biographies of each of the directors, including the committees on which they serve and chair, are shown on pages 21 to 22.

Corporate Governance Report (continued)

Board Operation

There is a formal schedule of matters reserved to the board for its decision. These include formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions, and reporting to the shareholders.

The board aims to meet ten times each year for regular board meetings, which are scheduled prior to the commencement of each financial year. These meetings are scheduled to coincide with the announcement of the Company's annual and half yearly accounts and throughout the remainder of the year at regular monthly intervals (apart from in August and December). These are supplemented by additional meetings where required for business including informal business reviews, to review budgets and focus on strategy. Dialogue occurs regularly between directors outside of scheduled meetings.

A formal agenda is produced for each meeting and for formal board meetings which includes the review and approval of minutes recorded, matters arising, a review of material operational matters relating to Group's businesses and other special items for discussion or consideration. Board papers are circulated to board and committee members in advance to allow directors adequate time for consideration. Any specific actions arising from such meetings are agreed by the board or relevant committee, circulated after the relevant meeting by the Company Secretary and then followed up by the Company's management.

Board Meetings

The board met 18 times during the financial year ended 31 December 2018. It is intended that the board will meet at least ten times a year to review, formulate and approve the Group's strategy, budgets, corporate actions and oversee the Group's progress towards its goals with at least one meeting on the premises of its subsidiary Retra, providing the board an opportunity to meet with its senior management and be involved with the business of the wider Group. In addition, the board held a focused, dedicated meeting on strategy on 14 January 2019 and intends to continue to schedule similar meetings annually.

The executive directors are each required to commit at least the following number of days per week to their roles: The Joint Chief Executive Officers, five days; the Chief Financial Officer, four days and the General Counsel & Company Secretary, two days. The non-executive directors are required to provide such time as is required to fully and diligently perform their duties. All board members are expected to attend all meetings of the board and the committees on which they sit, wherever possible.

Audit, Remuneration and Insider Committees

The board has established the Audit Committee, Remuneration Committee and Insider Committee with formally delegated duties and responsibilities and with written terms of reference. The full terms of reference of each committee are available from the Company's website at www.warpaintlondon.com

The Reports of the Audit Committee and the Remuneration Committee can be found on pages 28 to 31 and describe the work undertaken by the Committees throughout the year. The Audit Committee comprises three non-executive directors: Keith Sadler (Chair), Clive Garston and Paul Hagon. The Remuneration Committee comprises three non-executive directors: Paul Hagon (Chair), Clive Garston and Keith Sadler. The Insider Committee comprises one non-executive director and two executive directors: Clive Garston (Chair), Sam Bazini and Neil Rodol. During the financial year ended 31 December 2018, the Audit Committee met twice, the Remuneration Committee four times and the Insider Committee twice. From time to time separate committees are set up by the board to consider specific issues when the need arises. Due to the size of the Group, the directors have decided that issues concerning the nomination of directors will be dealt with by the board rather than a committee, but will regularly reconsider whether a Nominations Committee is required.

Board and Committee attendance for the year ended 31 December 2018

There were nine formal board meetings and nine telephone board meetings held during the year. Eoin Macleod was unable to attend one formal and two telephone meetings due to ill health. In the event that directors are unable to attend a meeting, their comments on papers submitted may be discussed in advance with the Chairman enabling their contribution to be included in the wider board discussion.

The following table shows directors' attendance at all board and committee meetings during the year.

	Board	Audit	Remuneration	Insider
Clive Garston	18/18	2/2	4/4	2/2
Sam Bazini	17/18	n/a	n/a	2/2
Eoin Macleod	13/18	n/a	n/a	n/a
Neil Rodol	18/18	n/a	n/a	2/2
Sally Craig *	6/6	n/a	n/a	n/a
Paul Hagon	15/18	2/2	4/4	n/a
Keith Sadler	18/18	2/2	4/4	n/a

*Sally Craig was appointed on 17 September 2018.

Roles of the Chairman, Joint Chief Executive Officers, Chief Financial Officer and General Counsel & Company Secretary

The Chairman is responsible for running the business of the board and for ensuring appropriate strategic focus and direction. The Joint Chief Executive Officers are responsible for proposing the strategic focus to the board, implementing it once it has been approved and overseeing the management of the Company through the executive team. There is a clear division of responsibility between the Chairman and the Joint Chief Executive Officers. Whilst the Joint Chief Executive Officers operate together in the majority of areas and on matters of strategy there is a delineation of duties between them within the day to day business of the Group.

The Chief Financial Officer works closely with the Joint Chief Executive Officers and is primarily responsible for the provision of monthly financial information to the board, control of working capital, overseeing the audit and preparation of all Group company statutory accounts and consolidated Interim Statements along with the overall financial management of the Group and its processes. The executive officers are responsible for formulation of the proposed strategic focus for submission to the board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets to be approved by the board of directors.

The General Counsel & Company Secretary is responsible for the oversight of legal issues and regulatory compliance along with executive share schemes, investor queries, HR matters, insurances and policy implementation. In addition, she assists the Chairman and other committee chairs in ensuring all meetings of the board and committees are informed and effective.

Board Performance and Evaluation

The Group's performance is reported monthly against headline performance and agreed budgets and reviewed by the board (as a minimum) at each monthly board meeting. The board challenges the executive directors and senior management on performance against budgets, forecasts and key business milestones. The board have adopted a set of KPI's against which the performance of the Company and therefore the board, can be measured.

The Company is at a relatively early stage in its development as a listed company and is yet to adopt a formal performance evaluation procedure for the board and directors individually. This will remain under review and the board will consider the implementation of performance evaluations facilitated by external advisers for the board, both individually and as a group, to ensure the efficient and productive operation of the board. As the business of the Group grows, the expertise required at management level is expanded and developed although there are no prescribed procedures for succession planning at board level.

Internal Financial Control and Risk Management

The board is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures, which include financial, compliance and risk management, are reviewed on an on-going basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The board has considered the need for an internal audit function but does not consider it necessary at the current time with the current controls in place and the relative complexity of the business. The principal risks identified by the board are set out in the Strategic Report on page 18. The assessment and management of risk is primarily the function of the executive officers, most specifically the Joint Chief Executive Officers for strategic and business risk and the Chief Financial Officer for financial risk. Where appropriate, matters of risk are referred to the board for consideration. In addition, the Financial Controller reports to the board each month, including on key risk issues.

Corporate Governance Report (continued)

Conflicts of Interest
At each meeting the board considers Directors' conflicts of interest. The Company's Articles provide for the board to authorise any actual or potential conflicts of interest.

External Advice
The board seeks external advice from time to time to enable it to effectively perform its duties including from its lawyers, accountants, nominated adviser and corporate broker, financial PR advisers and insurance brokers. Advice regarding the implementation of an executive reward scheme has been provided to the board by h2glenfern Limited. All directors have access to the advice and services of the General Counsel & Company Secretary, who is responsible for ensuring that board procedures are followed and that the Company complies with applicable rules, regulations and obligations.

Corporate Culture
The board maintains a corporate culture consistent with the Group's strategic objectives which aims to promote an ethical and responsible business. The Company places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Company through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officers engaging daily with employees across the business. Communication is encouraged on an informal basis, usually verbal. Communication channels within the business are key and the open-door policy aides this. Feedback from employees led to the introduction of flexible working and a revision to the warehouse operating hours at Iver. The Group has an extremely loyal work force with a low staff churn rate, promoting from within, offering staff mobility from the warehouse floor to administrative roles and managerial positions. Employees have the opportunity to purchase extra holiday and child care vouchers. A reward structure is in place, which includes the grant of share options, enabling members of staff to participate in the growth of the Company, as appropriate.

The corporate culture is monitored by the Joint Chief Executive Officers who appraise the board of any issues arising. In addition, the board receives monthly reports from the Financial Controller on HR and employee matters. The culture is implemented through a number of policies on Anti-Bribery, Whistleblowing, Modern Slavery, Employment and the Environment which are described below and regularly reviewed:

- **Anti-Bribery**
  The Group has in place an anti-bribery and anti-corruption policy which sets out its zero-tolerance position and provides information and guidance to those working for the Group on how to recognise and deal with bribery and corruption issues. During the period, there were no incidents for consideration.

- **Whistleblowing**
  The Group's 'whistleblowing' procedures ensure that arrangements are in place to enable employees and suppliers to raise concerns about possible improprieties on a confidential basis. Any issues raised are investigated and appropriate actions are taken. Should any significant issue arise they are highlighted to the board.

- **Modern Slavery and Human Trafficking**
  The Group has relationships with businesses around the world and is opposed to modern slavery and human trafficking wherever it may occur. The Group's processes and supply chains are examined and reviewed at least annually to ensure that slavery and human trafficking are prevented in its business and supply chains. Compliance with the Modern Slavery Act 2015 or equivalent anti-slavery, human trafficking laws are mandatory in all supply contracts.

- **Employees and Equal Opportunities**
  The Group's employment policy is set out in the Directors' Report. During the year, Sally Craig was appointed to the board of directors as General Counsel, whilst retaining her role as Company Secretary. At senior management level there are eleven female managers and nine male managers. Throughout the Group, the proportion of female to male employees is approximately 65% to 35%.

- **Environment**
  The business consumes significant amounts of cardboard and paper and the Group utilises a regular recycling collection service. The Group's products and packaging use paper and cardboard which enables the Group, the wholesaler and end user to recycle the waste effectively.

Relations with Shareholders
The Company's principal means of communication with shareholders is through the Annual Report and Financial Statements, the full-year and half-year announcements and the AGM.

The board recognises that the AGM is an important opportunity to meet private shareholders. Each substantially separate issue is the subject of a separate resolution at the AGM and all shareholders have the opportunity to put questions to the board. All board directors endeavour to attend AGMs and answer questions put to them which may be relevant to their responsibilities. In addition, the directors are available to listen informally to the views of shareholders immediately following the AGM. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are published on the Company's corporate website. The executive directors participate in retail investor events such as Mello South, where feasible.

The board receives regular updates on the views of shareholders through briefings and reports from the executive directors, the Company's brokers and PR advisers. The Joint Chief Executive Officers and the Chief Financial Officer make presentations to institutional shareholders and participate in Investor Road Shows both following the announcement of the full-year and half-year results and, at other times throughout the year. Not every executive officer participates in every investor presentation. The Chairman will participate in these presentations in future where appropriate and is always available to speak with shareholders.

Dialogue with individual institutional shareholders also takes place in order to understand and work with these investors to seek to comply with their investor principles where practicable. During the year ended 31 December 2018, the board, through the Remuneration Committee, consulted with two of the Company's major institutional shareholders, whose views were taken into consideration when implementing the Long Term Incentive Plan which was introduced on 21 September 2018.

Investor queries may be addressed to the Company Secretary at investors@warpaintlondonplc.com A range of corporate information (including all Company announcements) is also available to shareholders, investors and the public on the Company's corporate website www.warpaintlondon.com

Keith Sadler

Audit Committee Report

On behalf of the board, I am pleased to present the Audit Committee Report for the year ended 31 December 2018.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Group (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, reviewing findings of an audit with the auditors, meeting regularly with the auditors and advising on the appointment of external auditors.

During the year, the Committee consisted of three non-executive directors: me (as Chairman), Clive Garston and Paul Hagon. The Audit Committee is convened as required and met two times during the year ended 31 December 2018 to discharge its responsibilities inter alia in connection with the Group's Financial Statements for the year ended 31 December 2017 and the Interim Financial Statements for the six months ended 30 June 2018. A further planning meeting took place with the external auditor BDO LLP during the year. The Chief Financial Officer and the external auditor normally attend committee meetings. The committee met with the external auditor without management present during the year.

The board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and, over the past 25 years have served on the board of a number of public limited companies in finance roles including as Chief Financial Officer, Group Finance Director and Treasurer.

Whilst the board as a whole has a duty to act in the best interests of the Company, the Committee has a particular role, acting independently of management, to ensure that the interests of shareholders are properly protected in relation to financial reporting and the effectiveness of the Group's systems of financial internal controls.

The key responsibilities of the Committee are to:

- Monitor the integrity of the Group's financial statements and other statements and announcements relating to its financial performance, reviewing and challenging the methodology and assumptions used where necessary;
- Consider the Group's accounting policies and practices along with its application of accounting standards and significant judgements;
- Review the effectiveness of the Group's system of internal controls, including financial reporting and controls and risk management systems;
- Review the adequacy and security of the Group's procedures and controls for whistleblowing; the detection of fraud and the prevention of bribery;
- Consider and make recommendations to the board on the appointment, reappointment, removal or resignation and remuneration of the external auditor; and
- Oversee the relationship with the Group's external auditor including consideration of the objectivity and independence of the external audit process.

The full terms of reference for the Committee can be found on the Company's website at www.warpaintlondonplc.com

External auditor

BDO LLP was appointed by the board as the Company's external auditor on 12 June 2018 for the 2018 reporting period and it is their intention to put them forward at the AGM to stand as auditors for the next financial period. There are no contractual obligations that restrict the Committee's choice of external auditor.

The Group paid £113,500 to BDO for audit services in 2018, relating to the statutory audit of the Group and Company financial statements, the audit of Group subsidiaries, and audit-related assurance services. In addition, the Group paid £10,000 to BDO in 2018, for tax advice and interim reviews.

Committee performance and effectiveness

The Company is at a relatively early stage in its development and is yet to adopt a formal performance evaluation procedure for the board, its committees and directors individually.

Audit Committee Report

This Audit Committee Report was reviewed and approved by the board on 10 April 2019.

Keith Sadler
Audit Committee Chairman
10 April 2019

Remuneration Committee Report

Paul Hagon

On behalf of the board, I am pleased to present the Remuneration Committee Report for the year ended 31 December 2018.

The main objectives of the Remuneration Committee are to develop and implement compensation packages designed to attract and retain staff, creating opportunities for senior management and employees to participate in share option schemes and develop bonus arrangements which reward performance and incentivise employees, thus increasing shareholder value over the long term.

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Group's policy on the remuneration packages of the Company's Chairman, and the executive directors and such other members of the senior management as it is designated to consider. The Remuneration Committee also has responsibility for determining (within the terms of the Group's policy and in consultation with the Chairman of the board and/or the Chief Executive Officers) the total individual remuneration package for each executive director and other senior managers (including bonuses, incentive payments and share options or other share awards). The remuneration of non-executive directors will be a matter for the board. No director or manager will be allowed to partake in any discussions as to their own remuneration. In exercising this role, the directors shall have regard to the recommendations put forward in the relevant QCA Guidelines.

The Remuneration Committee consists of three non-executive directors: me (as Chairman), Clive Garston and Keith Sadler. The Remuneration Committee is convened not less than twice a year and otherwise as required. The committee met four times during the year ended 31 December 2018.

The full terms of reference for the Committee can be found on the Company's website at www.warpaintlondonplc.com

Activity during the Year – Introduction of Long-Term Incentive Plan ("LTIP")

On 24 September 2018, the Company announced the implementation of a new LTIP with initial grants to six senior team members including Sam Bazini and Eoin Macleod the Joint Chief Executive Officers and Neil Rodol, the Chief Financial Officer. The LTIP has been established to incentivise management to increase shareholder value over the long term.

The Remuneration Committee is keen to ensure that remuneration for the Company's senior team is effective and fair and motivate them to deliver success for the Company, its shareholders and employees. Share options with an exercise price of 254.5p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to Sam Bazini, Eoin Macleod and Neil Rodol on 21 September 2018 as set out in the table below:

	Share Options	Exercise Price
S Bazini	1,534,986	254.5p
E Macleod	1,534,986	254.5p
N Rodol	306,996	254.5p

The share options are exercisable up to 10 years from the date of grant. Vesting is subject to the performance conditions set out below:

50% of the award is subject to an adjusted EPS growth performance condition. One third of this portion of the award will be tested and vest after three, four and five years. Vesting is based on adjusted EPS in the years ending Dec 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 12.5% compound annual EPS growth and full vesting at 22.5% compound annual EPS growth, measured from 31 December 2017.

50% of the award is subject to an absolute TSR performance condition tested following the announcement of results for the years ending 31 December 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 8% compound annual TSR and straight line vesting up to 100% vesting at 18% compound annual TSR, measured from 31 December 2017.

An additional grant of 460,494 share options with the same terms was made to three senior management individuals of the Company, each of whom was granted 153,498 share options. The entire award represents 5.0% of the current issued share capital of the Company.

Remuneration Committee Report (continued)

External Advice and consideration of Shareholder Views

The Remuneration Committee was assisted in meeting its responsibilities by h2glenfern Limited, who provided advice relating to the implementation of the LTIP, for which they received fees of £13,000. The Remuneration Committee is satisfied that the advice it received was objective and independent. The Committee also consulted with two of the Company's major institutional shareholders and took their views into account when implementing the Plan.

Directors Remuneration Policy

The Group takes into account both Group and individual performance, market value and sector conditions in determining director and senior employee remuneration. The Group has maintained a policy of paying salaries comparable with peer companies in the sector in order to attract and retain key personnel.

Directors' Remuneration for the year ended 31 December 2018

	Salary	Pension	Benefits	Bonus	Total Remuneration 2018 £	Fair Value of Options £	Total Remuneration 2017 £
S Bazini	200,000	-	8,000	-	208,000	2,102,931	206,000
E Macleod	200,000	-	6,000	-	206,000	2,102,931	205,000
N Rodol	150,000	1,000	-	-	151,000	511,987	112,000
S Craig *	29,000	1,000	-	-	29,000	8,683	-
C Garston	60,000	-	-	-	60,000	-	60,000
P Hagon	40,000	-	-	-	40,000	-	40,000
K Sadler	40,000	1,000	-	-	41,000	-	40,000

*S Craig joined the board on 17 September 2018

Directors' interests in share options for year ended 31 December 2018

As at 31 December 2018 the following directors held the following performance related share awards (Enterprise Management Incentive Scheme Options or LTIPs) over ordinary shares of 25p each under the Warpaint London plc Enterprise Management Incentive Scheme. For details of the share option schemes see Note 21 on Page 60

	Type of Share Award	Date of Grant	Number of Shares at 31 December 2018	Exercise Price	End of Performance Period	Number of Shares at 31 December 2017 (or date of appointment if later)
S Bazini	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	-
E Macleod	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	-
N Rodol	EMI	29.06.2017	105,262	237.5p	29 June 2020	105,262
	LTIP	21.09.2018	306,996	254.5p	31 Dec 2022	-
S Craig *	EMI	29.06.2017	10,000	237.5p	29 June 2020	10,000
C Garston	-	-	-	-	-	-
P Hagon	-	-	-	-	-	-
K Sadler	-	-	-	-	-	-

*S Craig joined the board on 17 September 2018

The directors, who held office at 31 December 2018, had the following interests in the shares of the Company:

	Number of share options held at 31 December 2018[c]	Number of Ordinary Shares held at 31 December 2018	Ordinary Shares as % of issued share capital	Number of Ordinary Shares held at 31 December 2017
S Bazini[a]	1,534,986	17,695,208	23.06	17,545,208
E Macleod[b]	1,534,986	17,695,208	23.06	17,545,208
N Rodol	412,258	103,961	0.14	103,961
S Craig*	10,000	–	–	–
C Garston	–	126,315	0.16	126,315
P Hagon	–	31,145	0.04	31,145
K Sadler	–	31,145	0.04	31,145

*S Craig joined the board on 17 September 2018

In addition to the above holdings:

(a) 1,750,000 (2017: 3,000,000) shares are held by the wife of S Bazini

(b) 1,750,000 (2017: 3,000,000) shares are held by the wife of E Macleod

(c) For details of the share option schemes see Note 21 on Page 60

There were no changes in the shareholdings of the directors between 31 December 2018 and the date of this report.

Service Contracts and non-executive directors' Letters of Appointment

The executive directors have rolling contracts that are terminable on 12 months' notice, in the case of Sam Bazini and Eoin Macleod (the Joint Chief Executive Officers) and 6 months' notice, in the case of Neil Rodol (Chief Financial Officer) and Sally Craig (General Counsel & Company Secretary). The Chairman and each of the non-executive directors have entered into a letter of appointment which is terminable on three months' notice.

Shareholder Approval of Directors' Remuneration Report

Shareholders are asked to approve this directors' Remuneration Report (excluding the directors' Remuneration Policy) for the year ended 31 December 2018 at the forthcoming Annual General Meeting. This resolution is advisory in nature.

Paul Hagon
Remuneration Committee Chairman
10 April 2019

Directors Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2018. The Corporate Governance statements on pages 21 to 33 forms part of this report.

Going concern

The Company's going concern statement can be found in the Consolidated Financial Statements on page 42.

Results and dividends

The Group's results for the year ended 31 December 2018 are set out in the Consolidated Income Statement on page 37. The directors recommend a final dividend of 2.9 per ordinary share (2017: 2.6p) to be paid on 1 July 2019 for the year ended 31 December 2018 which, when added to the interim dividend of 1.5p (2017: 1.4p), gives a total dividend for the period of 4.4p per share (2017: 4.0p).

Directors

The following directors who held office during the year and to the date of authorisation of the accounts are as follows:

Non-Executive Chairman
C Garston

Executive Directors
S Bazini
E Macleod
N Rodol
S Craig (appointed 17 September 2018)

Non-Executive Directors
P Hagon
K Sadler

In accordance with the Company's Articles of Association Sally Craig, having been appointed since the last Annual General Meeting, will stand for re-election at the forthcoming Annual General Meeting and Sam Bazini and Paul Hagon will retire and stand for re-election.

Likely Future developments

Details of the Group's future developments are contained in the Strategic report set out on pages 3 to 18.

Substantial shareholdings

The Group is aware of the following shareholdings of 3% or more in the share capital as at 31 December 2018:

Shareholder	Number of Shares	%
S Bazini (including connected parties)	19,445,208	25.34
E Macleod (including connected parties)	19,445,208	25.34
Schroders plc	9,231,636	12.03
Blackrock Investment Management Limited	7,589,524	9.88
Canaccord Genuity Group Inc.	2,348,612	3.06

Financial instruments

The Group's financial risk management objectives and policies are discussed in note 23 to the consolidated financial statements on pages 61 to 65.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution proposing that BDO LLP be re-appointed as auditors of the Group will be put to the Annual General Meeting.

Indemnity of Directors

The Group has purchased and maintains, for all directors, insurance against any liability and the Group maintains appropriate insurance cover against legal action bought against its directors.

Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice). 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 Group and Company and of the profit or loss of the Group and Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union or United Kingdom Generally Accepted Accounting Practice;
- 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 Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Employees

It is the Company's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and, should staff become disabled during the course of their employment, efforts are made to provide appropriate re-training.

The Company places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Company through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officers engaging daily with employees across the business. Communication is encouraged on an informal basis, usually verbal. Communication channels within the business are key and the open-door policy aides this.

Statement of disclosure to the auditors

So far as the directors are aware:

(a) there is no relevant audit information of which the Company's auditors are unaware, and

(b) they have 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 auditors are aware of that information.

On behalf of the board

Neil Rodol
Chief Financial Officer
10 April 2019

Independent Auditors' Report
to the members of Warpaint London PLC

Opinion

We have audited the financial statements of Warpaint London Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statements of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following matters were identified by us as the most significant assessed risks of material misstatement:

Impairment of intangible assets and goodwill

See accounting policy and details of judgements and accounting estimates given in note 1.

The issue – the group is required to consider whether impairment of goodwill is required in respect of the acquisition of Retra Holdings or Marvin Leeds Marketing. Judgement is required in respect of this consideration, and the use of an inappropriate model or inappropriate assumptions within the model in respect of discount rate, long term growth rate or underlying short-term forecasts may lead to any impairment being materially misstated.

The group has engaged third party experts to assist with the preparation of the impairment model and to assist in determining the key assumptions within the model. The results of the model are extremely sensitive to changes in the discount rate in particular as explained in note 9 to the financial statements.

We have highlighted this as a key audit matter due to the size of the acquisition of the Retra business, the judgements involved in determining any impairment charge, and the challenging trading conditions currently experienced by the business.

How we addressed the issue –

We checked that management had appropriately determined the carrying amount for each Cash Generating Unit (CGU).

We confirmed the cash flow forecasts prepared by management were consistent with those approved by the Board and examined the cashflow forecasts by testing the underlying models, including an analysis of underlying assumptions and a comparison to recent performance trends and results after the year end.

We assessed the competence and independence of the third party experts engaged by management in preparing the underlying impairment model.

The key assumptions of the discount rate and long term growth rate underlying the impairment test were addressed using the expertise of our own valuation specialists to benchmark the key assumptions against comparator companies and general market indicators.

We checked that appropriate and adequate disclosures were included in the financial statements which were in accordance with the requirements of the accounting standards.

We discussed the key assumptions used within the model and how we challenged the discount rate applied with the audit committee.

Carrying value of inventory

See accounting policy and details of judgements and accounting estimates given in note 1.

The issue - The group holds significant levels of inventory and a number of estimates are involved in valuing slow moving and obsolete inventories, some of which have a limited shelf life. There are inherent uncertainties in consumer preferences and spending patterns, which are primarily driven by wider trends in the fashion and cosmetics industry. There is a recoverability risk associated with new product launches as well as with close out stock purchased at the end of ranges or seasons with judgement required in forecasting demand.

How we addressed the issue - Our procedures included assessing the principles and appropriateness of the Group's inventory provisioning policies based on our understanding of the business and the accuracy of previous provisioning estimates. In assessing inventory provisions our procedures included testing the methodology applied by management in preparing their provision including the identification of slow moving and obsolete items. We considered the inventory write off figure during the year and compared this to the Group's expected recoveries brought forward and to the position at the year end date. Further, we tested the unprovided inventory balance by reviewing sales volumes and values after the balance sheet date.

We discussed the key assumptions within the inventory provision and the movements and aging of inventory with the audit committee.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality which, together with qualitative considerations, help us to determine the nature, timing and extent of our audit procedures on the individual financial statement areas and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £405,000 which represents 5% of profit before tax, amortisation, impairment and exceptional items. In the prior year materiality was calculated at £388,000 which was based on 5% of profit before tax and exceptional items.

We used profit before tax, amortisation, impairment and exceptional items as a benchmark given that this represents the underlying trading position of the business and it is this figure which is considered most important for shareholders in assessing the performance of the Group.

Each component of the Group was audited to a lower level of materiality. Component materiality ranged from £100,000 to £330,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £303,750 (2017: £271,600) which represents 75% (2017: 70%) of the above materiality levels.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £20,250. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Materiality of the company was set at £105,000 with performance materiality set at £78,750 based on 75% of materiality. Materiality was based on a capped asset basis and is equivalent to 0.2% of assets of the company.

An overview of the scope of our audit

The group consists of four trading subgroups, all of which are run from the UK except for Marvin Leeds Marketing Services Inc. which is based in the United States of America. In establishing the overall approach to the group audit, we completed full scope audits on the underlying subgroups and the parent company, except for Marvin Leeds Marketing Services Inc, on which we tested specific account balances. All audit work was carried out by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report (continued)

to the members of Warpaint London PLC

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out in the Directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Mark RA Edwards
(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London, UK
10 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidation Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	2017 £'000
Revenue	1,2	**48,477**	32,549
Cost of sales		**(31,263)**	(19,911)
Gross profit		**17,214**	12,638
Administrative expenses	3,4	**(12,330)**	(5,744)
Analysed as:			
Adjusted profit from operations[1]		**8,303**	7,749
Amortisation	3,9,10	**(2,272)**	(469)
Impairment losses	3,9,10	**(812)**	–
Exceptional items	3	**(335)**	(386)
Profit from operations	3	**4,884**	6,894
Finance expense	5	**(150)**	(37)
Profit before tax		**4,734**	**6,857**
Tax expense	6	**(1,159)**	(1,384)
Profit for the year attributable to equity holders of the parent company		**3,575**	5,473
Other comprehensive income:			
Item that will or maybe reclassified to profit or loss:			
Exchange gain on translation of foreign subsidiary		**48**	–
Total comprehensive income attributable to equity holders of the parent company		**3,623**	5,473

Basic earnings per share (pence)	27	**4.66**	8.34
Diluted earnings per share (pence)	27	**4.66**	**8.34**

Note 1 – Adjusted profit from operations is calculated as earnings before interest, taxation, amortisation, impairment and exceptional items.

Financial Statements

The notes on pages 42 to 70 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2018
Registered Number: 10261717

	Note	Year ended 31 December 2018 £'000	2017 (restated) £'000
Non-current assets			
Goodwill	9	**7,051**	7,532
Intangibles	10	**9,486**	10,653
Property, plant and equipment	11	**1,358**	1,497
Total non-current assets		**17,895**	19,682
Current assets			
Inventories	12	**15,362**	11,531
Trade and other receivables	13	**12,761**	13,676
Cash and cash equivalents	14	**4,041**	3,369
Total current assets		**32,164**	28,576
Total assets		**50,059**	48,258
Current liabilities			
Trade and other payables	15	**(3,489)**	(3,537)
Loans and borrowings	16	**(2,169)**	(582)
Corporation tax liability		**(1,034)**	(939)
Derivative financial instruments	23	**–**	(3)
Total current liabilities		**(6,692)**	(5,061)
Non-current liabilities			
Bank loan	16	**(553)**	(814)
Deferred tax liability	17	**(1,796)**	(1,959)
Total non-current liabilities		**(2,349)**	(2,773)
Total liabilities		**(9,041)**	(7,834)
NET ASSETS		**41,018**	40,424

The notes on pages 42 to 70 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2018
Registered Number: 10261717

	Note	2018 £'000	2017 £'000
Equities			
Share capital	19	**19,187**	19,187
Share premium		**19,359**	19,359
Merger reserve		**(16,100)**	(16,100)
Other reserves	20	**209**	45
Retained earnings		**18,363**	17,933
TOTAL EQUITY		**41,018**	40,424

The financial statements of Warpaint London PLC were approved and authorised for issue by the Board of Directors on 10 April 2019 and were signed on its behalf by:

Neil Rodol
Chief Financial Officer

The notes on pages 42 to 70 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Note	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Foreign exchange reserve £'000	Share option reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2017		16,135	1,806	(17,995)	–	–	14,332	14,278
Comprehensive Income for the year								
Profit for the year		–	–	–	–	–	5,473	5,473
Dividends paid	18	–	–	–	–	–	(1,872)	(1,872)
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**3,601**	**3,601**
Transactions with owners								
Shares issued during the year	19	2,789	18,410	–	–	–	–	21,199
Shares issued for Retra Holdings	19	263	–	1,895	–	–	–	2,158
Share issue costs		–	(857)	–	–	–	–	(857)
Movement in other reserves	19	–	–	–	–	45	–	45
Total transactions with owners		**3,052**	**17,553**	**1,895**	**–**	**45**	**–**	**22,545**
As at 31 December 2017		**19,187**	**19,359**	**(16,100)**	**–**	**45**	**17,933**	**40,424**
Comprehensive Income for the year								
On translation of foreign subsidiary		–	–	–	48	–	–	48
Profit for the year		–	–	–	–	–	3,575	3,575
Total comprehensive income for the year		**–**	**–**	**–**	**48**	**–**	**3,575**	**3,623**
Transactions with owners								
Movement in other reserves	21	–	–	–	–	116	–	116
Dividends paid	18	–	–	–	–	–	(3,145)	(3,145)
Total transactions with owners		**–**	**–**	**–**	**–**	**116**	**(3,145)**	**(3,029)**
As at 31 December 2018		**19,187**	**19,359**	**(16,100)**	**48**	**161**	**18,363**	**41,018**

The notes on pages 42 to 70 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	2017 (restated) £'000
Operating activities			
Profit before tax		**4,734**	6,857
Interest paid	5	**150**	37
Impairment of goodwill	9	**812**	–
Amortisation of intangible assets	10	**2,272**	469
Depreciation of property, plant and equipment	11	**529**	184
Loss on disposal of property, plant and equipment		**7**	6
Share based payment		**116**	45
Decrease/(increase) in trade and other receivables		**1,574**	419
Decrease/(increase) in inventories		**(2,524)**	224
Decrease in trade and other payables		**(1,753)**	(1,356)
Foreign exchange translation differences		**48**	–
Cash generated from operations		**5,965**	6,885
Tax paid		**(1,565)**	(2,077)
Interest paid		**(150)**	(37)
Net cash flows from operating activities		**4,250**	4,771
Investing activities			
Purchase of intangible assets	10	**(48)**	(52)
Purchase of property, plant and equipment	11	**(392)**	(555)
Acquisition of business	8	**(1,591)**	(15,750)
Bank balances acquired	8	**272**	242
Proceeds from sale of property, plant and equipment		**–**	33
Net cash used in by investing activities		**(1,759)**	(16,082)
Financing activities			
Proceeds from new share capital subscribed		**–**	21,199
Share issue costs		**–**	(857)
Repayment of borrowings		**(261)**	(20)
Increase/(decrease) in stock and invoice finance facilities		**1,587**	(7,273)
Dividends	18	**(3,145)**	(1,872)
Net cash (used in)/ generated by financing activities		**(1,819)**	11,177
Net increase in cash and cash equivalents		**672**	(134)
Cash and cash equivalents at beginning of period		**3,369**	3,503
Cash and cash equivalents at end of period		**4,041**	3,369
Cash and cash equivalents consists:			
Cash and cash equivalents		**4,041**	3,369
		4,041	3,369

The notes on pages 42 to 70 form part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018

1. Significant accounting policies

Basis of preparation

The financial statements of Warpaint London PLC (the "Company" or "Warpaint") and its subsidiaries (together the "Group") for the year ended 31 December 2018 were authorised for issue by the board of directors on 10 April 2019 and the statement of financial position was signed on the board's behalf by Neil Rodol.

Warpaint London PLC is a public limited company incorporated and registered in England and Wales. Its registered office is Units B&C, Orbital Forty Six, The Ridgeway Trading Estate, Iver, Bucks, SL0 9HW.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The annual financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are carried at fair value or amortised cost as appropriate.

The preparation of financial statements in conformity with International Financial Reporting Standards adopted by the European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The principal accounting policies adopted are set out below.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. All subsidiaries have a reporting date of December.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

On consolidation, the results of overseas operations are translated into pound sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Going concern

The directors have prepared a detailed forecast with a supporting business plan for the foreseeable future. The forecast indicates that the Group will remain in a positive cash position throughout the forecast period. As such, the Directors have a reasonable expectation the Company and Group will have adequate resources to continue in operational existence for the foreseeable future. As such, they continue to prepare the financial statements on the basis of going concern.

Revenue Recognition

The Group has adopted IFRS 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition.

Performance obligations and timing of revenue recognition

The Group's revenue is derived from selling goods with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer. However, for export sales, control might also be transferred when delivered either to the port of departure or port of arrival, depending on the specific terms of the contract with a customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

UK sales are recognised and invoiced to the customer once the goods have been delivered to the customer. Overseas sales are recognised and invoiced to the customer once the goods have been delivered to the customer or collected by the customer from the Group's warehouse according to the terms of sale.

Where the Group has entered in to distributor arrangements the risk and rewards are considered to be with the distributor from the date of dispatch from either the Group's overseas supplier or from the Company's UK warehouse. Revenue is therefore recognised on the date of dispatch.

Determining the transaction price

Most of the Group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. Exceptions are as follows:

- Some contracts provide customers with a limited right of return. These relate predominantly, but not exclusively, to online sales direct to consumers and retailers. Historical experience enables the group to estimate reliably the value of goods that will be returned and restrict the amount of revenue that is recognised such that it is highly probable that there will not be a reversal of previously recognised revenue when goods are returned.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1. Significant accounting policies (continued)

- Variable consideration relating to volume rebates has been considered in estimating revenue in order that it is highly probable that there will not be a future reversal in the amount of revenue recognised when the amount of volume rebates has been determined.

Allocating amounts to performance obligations

For most contracts, there is a fixed unit price for each product sold, with reductions given for bulk orders placed at a specific time. Therefore, there is no judgement involved in allocating the contract price to each unit ordered in such contracts (it is the total contract price divided by the number of units ordered). Where a customer orders more than one product line, the Group is able to determine the split of the total contract price between each product line by reference to each product's standalone selling prices (all product lines are capable of being, and are, sold separately).

Practical Exemptions

The Group has taken advantage of the practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

Expenditure and provisions

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability relating to a past event and where the amount of the obligation can be reliably estimated.

Retirement Benefits: Defined contribution schemes

Contributions to defined contribution schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Exceptional items

Exceptional items which have been disclosed separately on the face of the income statement in order to summarise the underlying results. Exceptional items relate to legal and professional fees incurred on the acquisition of Marvin Leeds Marketing Services, Inc. (2017: Retra Holdings Limited). Neither 'underlying profit or loss' nor 'exceptional items' are defined by IFRS however the directors believe that the disclosures presented in this manner provide clear presentation of the financial performance of the Group.

Intangible assets

Patents

Patents are used by the Group in order to generate future economic value through normal business operations. Patents are acquired separately and carried at cost less amortisation and impairment. The underlying assets are amortised over the period from which the Group expects to benefit, which is typically between five to ten years.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation is provided on customer lists and brands so as to write off the carrying value over the expected useful economic life of five years. Other details of the acquisition are detailed in note 8.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed, and equity instruments issued, plus the amount of any non-controlling interests in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of non-financial assets (excluding inventories and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1. Significant accounting policies (continued)

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over the expected useful economic lives. It is provided at the following rates:

Plant and machinery	- 25% reducing balance and 20% straight line
Fixtures and fittings	- 25% reducing balance and 20% straight line
Computer equipment	- 25% reducing balance and 33.33% straight line
Motor vehicles	- 20% straight line

Financial assets

The Group has adopted IFRS 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets.

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12- month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available and has been adopted by the Group. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise trade and other receivables, and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" for in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Other financial liabilities include the following items:

- Bank loans which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost ensuring the interest element of the borrowing is expensed over the repayment period at a constant rate.
- Trade payables, other borrowings and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, through the use of foreign exchange rate forward contracts.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1. Significant accounting policies (continued)

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Operating Leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the combined statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Leased assets

Assets obtained under hire purchase contract and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the combined statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of the cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officers and the Chief Financial Officer.

The Board considers that the Group's project activity constitutes two operating and two reporting segments, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

The total profit measures are operating profit and profit for the year, both disclosed on the face of the combined income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial information.

Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and shares in employee benefit trusts, determined in accordance with the provisions of IAS 33 earnings per share. Diluted earnings per share is calculated by dividing earnings attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the year adjusted for the potentially dilutive ordinary shares.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1. Significant accounting policies (continued)

Share Capital

The Group's ordinary shares are classified as equity instruments.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9, *Financial Instruments* (IFRS 9); and
- IFRS 15, Revenue from Contracts with Customers (IFRS 15)

Details of the impact these two standards have had are given above. Other new and amended standards and Interpretations issued by IASB and adopted by the EU that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

b) At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB and adopted by the EU but are not yet effective and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

IFRS 16 'Leases'

IFRS 16 is effective for the periods commencing 1 January 2019 and the first reporting date when IFRS 16 will be applied will be the interim period ending 30 June 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

The Group intends to adopt the modified retrospective approach. Under this approach, a lessee does not restate comparative information. Consequently, the date of initial application is the first day of the annual reporting period in which a lessee first applies the requirements of the new leases standard. At the date of initial application of the new leases standard, lessees recognise the cumulative effect of initial application as an adjustment to the opening balance of equity as of 1 January 2019.

The Directors have estimated the impact of adopting this new standard and it is anticipated the Group will recognise right-of-use assets in respect of the properties it leases with a value of approximately £5.0m being attributed to right-of-use assets and a lease liability of the same amount.

Effect of changes in accounting policies

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 has superseded the previous revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations. The group has adopted IFRS 15 for the year ended 31 December 2018 and has applied the modified retrospective approach without restatement of comparatives.

Under IFRS 15, volume rebates and early settlement discounts represent variable consideration and is estimated and recognised as a reduction to revenue as performance obligations are satisfied. Management recognises revenue based on the amount of estimated rebate to the extent that revenue is highly probable of not reversing. Management monitors this estimate at each reporting date and adjusts it as necessary. There has been no material impact to the recognition of revenue relating to variable consideration.

The Group has applied IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9.

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There will be no change in the accounting for any other financial liabilities.

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IFRS 9. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1. Significant accounting policies (continued)

The new impairment model applies to the Group's financial assets that are debt instruments measured at amortised costs or FVTOCI.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 9. To measure the expected credit losses on a collective basis, trade receivables are grouped based on aging and the group believes that all trade receivables are on a similar credit risk. The Group's calculation of the loss allowance for these assets as at 31 December 2017 is £19,000 lower compared to the amount disclosed previously under IAS 39. The expected loss rates are based on the Group's historical credit losses over the three-year prior period end. The rates have not been adjusted for current and forward looking information, including macroeconomic factors affecting its customers, as the impact is immaterial to the group as a whole.

Prior year restatement

During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000, on delivery of a final EBITDA statement to the previous owners of Retra, resulting in a reduction in the goodwill figure arising on acquisition from £7,469,000 to £7,019,000. The comparative figures at 31 December 2017 have been adjusted retrospectively. This has no impact on the reserves or the shareholders' funds.

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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 discussed below.

Judgements and accounting estimates and assumptions

a) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of the cost and net realisable value. There is judgement involved in assessing the level of inventory provision required in respect of slow moving inventory.

The Group makes a 50% provision for perishable items of stock that are greater than two years old. Should the Group increase the provision to 100% of perishable items that are greater than two years old, this would decrease profit by £130,000.

b) Intangible assets acquired

On acquisition of Marvin Leeds Marketing Services, Inc. ("LMS") the Group has recognised the customer list also obtained in the business combination. The valuation of the customer list is based on judgement involved in assessing the projected future cashflows arising from those customers. Further judgement is involved in assessing the life of the intangible asset and a suitable discount rate to be used to measure the future revenues to present value.

The valuation of the customer list is based on judgement involved in assessing the projected future cashflows arising from those customers. Further judgement is involved in assessing the life of the intangible asset and a suitable discount rate to be used to measure the future revenues to present value. A one per cent increase in the discount rate from 20.1% to 21.1% would reduce the fair value of customer lists by approximately £22,000.

c) Impairment of goodwill

Following the assessment of the recoverable amount of goodwill allocated to Retra Holdings Limited, the directors consider the recoverable amount of goodwill to have been impaired by £812,000. The assessment of the recoverable amount of goodwill was based on a value in use calculation which involved judgement in assessing the projected future cashflows arising from the CGU and a suitable discount rate to be used to measure the future cash flows to present value. A one per cent increase in the discount rate from 16.7% to 17.7% would reduce the recoverable amount by approximately £1.25 million.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

2. Segmental information

For management purposes, the Group is organised into two operating segments; Branded and close-out. The segment 'Branded' relates to the sale of own branded products whereas 'close-out' relates to the purchase of third party stock which is then repackaged for sale. These segments are the basis on which the Group reports internally to the Board.

Year ended 31 December	2018 Own Brand £'000	2018 Close-out £'000	2018 Total £'000	2017 Own Brand £'000	2017 Close-out £'000	2017 Total £'000
Revenue	40,875	7,602	48,477	26,890	5,659	32,549
Cost of sales	(26,188)	(5,075)	(31,263)	(16,012)	(3,899)	(19,911)
Gross profit	14,687	2,527	17,214	10,878	1,760	12,638
Administrative expenses	(10,213)	(970)	(11,183)	(4,423)	(935)	(5,358)
Exceptional items	(327)	(8)	(335)	(386)	–	(386)
Impairment losses	(812)	–	(812)	–	–	–
Segment result	3,335	1,549	4,884	6,069	825	6,894
Reconciliation of segment result to profit before tax:						
Segment result	3,335	1,549	4,884	6,069	825	6,894
Finance expense	(150)	–	(150)	(37)	–	(37)
Profit before tax	3,185	1,549	4,734	6,032	825	6,857
Analysis of total revenue by geographical market:						
UK	18,430	4,954	23,384	12,330	4,460	16,790
Europe	15,121	1,557	16,678	7,132	767	7,899
USA	4,227	1,069	5,296	2,419	198	2,617
Australia and New Zealand	1,282	20	1,302	4,062	232	4,294
Rest of World	1,815	2	1,817	947	2	949
Total	40,875	7,602	48,477	26,890	5,659	32,549

During the year ended 31 December 2018, the Group had no customers that exceeded 10% of total revenue. During the year ended 31 December 2017, the Group had one customer that exceeded 10% of total revenue being 11%.

Information regarding segment assets and liabilities as at 31 December 2018 and capital expenditure for the period then ended:

	2018 Own Brand £'000	2018 Close-out £'000	2018 Eliminations* £'000	2018 Total £'000	2017 Own Brand £'000	2017 Close-out £'000	2017 Eliminations* £'000	2017 Total £'000
Total assets	79,925	4,172	(34,038)	50,059	76,389	3,108	(31,239)	48,258
Total liabilities	(6,115)	(763)	(2,163)	(9,041)	(5,112)	(817)	(1,905)	(7,834)
Tangible asset additions	292	–	–	292	1,483	–	–	1,483
Intangible asset additions	786	–	–	786	12,539	–	–	12,539
Total capital expenditure	1,078	–	–	1,078	14,022	–	–	14,022

* The eliminations are as a result of adjustments arising on consolidation of the financial statements.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

3. Operating profit

Operating profit for the period is stated after charging/(crediting):

	Year ended 31 December	
	2018	2017
	£'000	£'000
Foreign exchange (gain)/loss	**(359)**	71
Depreciation	**529**	184
Amortisation	**2,272**	469
Impairment	**812**	–
Loss on disposal of fixed asset	**7**	6
Operating lease costs		
– Land and buildings	**557**	360
– Equipment	**71**	70
Reversal of write-down inventories at net realisable value		
Reversal of stock provision	**114**	189
Exceptional costs	**335**	386

Exceptional costs in 2018 included £0.16 million of acquisition costs as they were one off legal and professional fees incurred in acquiring LMS USA on 2 August 2018, plus £0.10 million of professional fees relating to the acquisition of Retra in 2017, plus £0.08 million of staff restructuring costs at Retra (2017: £0.40 million of acquisition costs as they were legal and professional fees and commissions incurred in acquiring Retra on 30 November 2017. Total acquisition costs were £1.2 million of which £0.8 million related to the issue of new shares to fund the purchase of Retra and these were charged against the share premium account).

Analysis of auditor's remuneration is as follows:

	Year ended 31 December	
	2018	2017
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Group's annual accounts	**36**	20
Fees payable to the Company's auditor for the audit of subsidiary companies	**78**	66
	114	86

Other services pursuant to legislation:		
Tax advice	**7**	1
Other assurance	**3**	2
Transaction related services	**–**	114
Total non-audit fees	**10**	117

4. Staff costs

	Year ended 31 December	
	2018	2017
	£'000	£'000
Wages and salaries	**4,252**	2,789
Social security costs	**521**	243
Pension costs	**68**	19
	4,841	3,051

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Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

4. Staff costs (continued)

The average monthly number of employees during the period was as follows:

	Year ended 31 December	
	2018	2017
	No.	No.
Directors	**6**	6
Administrative	**40**	6
Finance	**3**	3
Warehouse	**45**	25
Sales	**6**	4
Other	**12**	8
	112	52

	2018	2017
	£'000	£'000
Directors' remuneration, included in staff costs		
Salaries	**719**	653
Pension contributions	**3**	–
	722	653

Remuneration in respect of Directors was as follows:

	Salary/fees	Benefits	Pension contribution	**2018**	2017
	£'000	£'000	£'000	**£'000**	£'000
Executive Directors					
C Garston	60	–	–	**60**	60
S Bazini	200	8	–	**208**	206
E Macleod	200	6	–	**206**	205
N Rodol	150	–	1	**151**	112
S Craig	29	–	1	**30**	–
Non-executive Directors					
K Sadler	40	–	1	**41**	40
P Hagon	40	–	–	**40**	30
	719	**14**	**3**	**736**	**653**

	Number of Share options at January 2018	Number of Share options Awarded in the year	Number of share options Lapsed in the year	**Number of Share options at December 2018**	Exercise Price	Earliest Exercise Date	Exercise Expiry Date
N Rodol	**105,262**	306,996	–	**412,258**	105,262 @237.59p	29/06/2020	29/06/2027
					306,996 @254.5p	21/09/2021	21/09/2028
S Bazini	**–**	1,534,986	–	**1,534,986**	254.5p	21/09/2021	21/09/2028
E Macleod	**–**	1,534,986	–	**1,534,986**	254.5p	21/09/2021	21/09/2028
S Craig	10,000	–	–	**10,000**	237.59p	29/06/2020	29/06/2027
Total share options	115,262	3,376,968	–	3,492,230			

The directors of the Group are the only key management personnel.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

5. Finance expense

	Year ended 31 December 2018 £'000	2017 £'000
Loan interest	**28**	15
Hire Purchase interest	**59**	5
Other interest	**63**	17
	150	37

6. Income tax

	Year ended 31 December 2018 £'000	2017 £'000
Current tax expense		
Current tax on profits for the period	**1,660**	1,473
Adjustment in respect of previous periods	**–**	(30)
	1,660	1,443
Deferred tax expense		
Origination and reversal of temporary differences	**(501)**	(59)
Total tax expense	**1,159**	1,384

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profit for the year as follows:

	Year ended 31 December 2018 £'000	2017 £'000
Profit for the period before tax	**4,734**	6,857
Expected tax charge based on corporation tax rate of 19% (2017: 19.25%)	**899**	1,319
Expenses not deductible for tax purposes	**47**	178
Other adjustments	**12**	4
Different tax rates applied in overseas jurisdiction	**20**	–
Prior year adjustments	**–**	(30)
Adjustment to deferred tax to average rate	**181**	(87)
Total tax expense	**1,159**	1,384

The UK corporation tax at the standard rate for the year is 19.0% (2017: 19.0%).

In the Finance Act 2016 the UK government announced its intention to reduce the standard corporation tax rate to 17% by 2020. The measure to reduce the rate to 17% for the financial year beginning 1 April 2020 was substantively enacted on 6 September 2016 and has, where applicable, been reflected in the financial statements.

The Group's effective tax rate for the year is 24.5% (2017 : 20.2%).

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

7. Subsidiaries

At the period end, the Group has the following subsidiaries:

Subsidiary name	Nature of business	Place of incorporation	Percentage owned
Warpaint Cosmetic Group Limited	Holding company	England and Wales	100%
Warpaint Cosmetics (2014) Limited*	Wholesaler	England and Wales	100%
Treasured Scents (2014) Limited	Wholesaler	England and Wales	100%
Treasured Scents Limited*	Holding company	England and Wales	100%
Warpaint Cosmetics Inc.	Dormant	U.S.A.	100%
Retra Holdings Limited	Holding company	England and Wales	100%
Badgequo Limited*	Wholesaler	England and Wales	100%
Retra Own Label Limited*	Dormant	England and Wales	100%
Badgequo Deutschland GmbH*	Supply chain management	Germany	100%
Badgequo Hong Kong Limited*	Supply chain management	Hong Kong	100%
Jinhua Badgequo Cosmetics Trading Co., Ltd*	Wholesaler	People's Republic of China	100%
Marvin Leeds Marketing Services, Inc.	Wholesaler	U.S.A.	100%

* indicates indirect interest

On 2 August 2018, the Company acquired 100% of the issued share capital of Marvin Leeds Marketing Services, Inc.

All the other entities detailed above have been in existence for the whole of the reporting period.

The registered office for all UK incorporated subsidiaries is Units B&C, Orbital Forty Six, The Ridgeway Trading Estate, Iver, Bucks. SL0 9HW.

The registered office for Warpaint Cosmetics Inc.is 445 Northern Boulevard – Great Neck, New York 11021.

The registered office for Marvin Leeds Marketing Services, Inc. is 34W. 33rd St. – Suite 1015, New York NY 10001.

The registered office for Badgequo Deutschland GmbH is Robert-Bosch-Straße 10, Haus 1, 56410 Montabaur, Germany.

The registered office for Badgequo Hong Kong Limited is 12F, 3 Lockhart Road, Wanchai, Hong Kong.

The registered office for Jinhua Badgequo Cosmetics Trading Co., Ltd is Room 1401, Gongyuan Building No. 307 South Shuanglong Street, Wucheng District, Jinhua, Zhejiang, China 321000.

8. Acquisitions

Marvin Leeds Marketing Services, Inc.

On 2 August 2018, the Group acquired the entire share capital of Marvin Leeds Marketing Services, Inc. ("LMS"), the Group's US distributor. The principal reason for acquiring LMS was to provide direct access to the Warpaint brand to some key existing customers and to open a number of new opportunities in the US and the Americas more widely. LMS has contributed £2,356,000 to revenue for the period between the date of acquisition and the balance sheet date. Had LMS been consolidated from 1 January 2018, the consolidated income statement for the year ended 31 December 2018 would show additional revenue of $5,500,000 (£4,093,000) and a loss before tax of $198,000 (£148,000).

The provisional fair value of the net assets at the acquisition date is as follows:

	Book value $'000	Fair value adjustment $'000	Total $'000	Book value £'000	Fair value adjustment £'000	Total £'000
Customer lists	–	1,381	1,381	–	1,057	1,057
Property, plant and equipment	11	–	11	8	–	8
Stock	1,708	–	1,708	1,307	–	1,307
Trade and other receivables	546	–	546	418	–	418
Cash and cash equivalents	356	–	356	272	–	272
Trade and other payables	(2,228)	–	(2,228)	(1,705)	–	(1,705)
Deferred tax asset	219	–	219	168		168
Deferred tax liability	–	(346)	(346)	–	(265)	(265)
Net assets acquired	612	1,035	1,647	468	792	1,260
Goodwill arising on acquisition			433			331
Consideration			2,080			1,591

The gross contractual amount of trade receivables is equal to the fair value. The fair value adjustment is based on level 3 inputs.

Goodwill comprises the value of expected synergies and other opportunities arising from the acquisition, management know how, the skilled work force employed by LMS and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

8. Acquisitions (continued)

The fair value of consideration paid is as follows:

	$'000	£'000
Cash consideration	2,080	1,591
	2,080	**1,591**

Costs associated with the acquisition of LMS are £160,000 and are disclosed within exceptional costs in note 3.

The profit and loss for LMS from the date of acquisition to 31 December 2018 is as follows:

	$'000	£'000
Revenue	3,029	2,356
Cost of sales	(2,935)	(2,284)
Gross profit	94	72
Administrative expenses	(442)	(344)
Loss before tax	(348)	(272)
Tax expense	75	58
Total comprehensive loss for the period	**(273)**	**(214)**

Retra Holdings Limited

On 30 November 2017, the Group acquired the entire share capital of Retra Holdings Limited ("Retra" or "Retra Holdings"), a cosmetics wholesaler based in the UK. The principal reason for acquiring Retra Holdings was due to the company operating in the same industry, it also holds additional customer base, product ranges and brands.

Retra has contributed £1,323,000 to revenue for the period between the date of acquisition and the balance sheet date, 31 December 2017. Had Retra Holdings been consolidated from 1 January 2017, the consolidated statement of comprehensive income for the year ended 31 December 2017 would show additional revenue of £18,944,000 and profit before tax of £1,849,000.

The fair value of the net assets at the acquisition date is as follows:

	Book value £'000	Fair value adjustment £'000	Total £'000
Brands	–	3,802	3,802
Customer lists	–	5,865	5,865
Property, plant and equipment	929	–	929
Stock	4,088	–	4,088
Trade and other receivables	8,698	–	8,698
Cash and cash equivalents	242	–	242
Trade and other payables	(2,234)	–	(2,234)
Corporation tax	(74)	–	(74)
Loans	(8,687)	–	(8,687)
Deferred tax liability	–	(1,740)	(1,740)
Net assets acquired	2,962	7,927	10,889
Goodwill arising on acquisition (as restated)			7,019
Consideration (as restated)			**17,908**

The gross contractual amount of trade receivables is equal to the fair value.

The fair value adjustment is based on level 3 inputs.

Goodwill comprises the value of synergies and other opportunities arising from the acquisition, management know how, the skilled work force employed by Retra Holdings and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is deductible for tax purposes.

The fair value of consideration paid is as follows:

	£'000
Cash consideration (as restated)	15,750
Share consideration	2,158
	17,908

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Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

8. Acquisitions (continued)

Share consideration is based on the issue of 1,052,631 shares at a market value on 30 November 2017 at £2.05 per share.

The final consideration amount was based on a completion statement according to the sale and purchase agreement terms and delivery of the statutory accounts of Retra Holdings. The purchase price was £17.7536 million (£15.75 million in cash and £2 million of consideration shares) which takes into account a reduction of up to £450,000 following the delivery of the final EBITDA statement, as a result the comparatives were restated by reducing Goodwill by £450,000 and the inclusion of a receivable for the same amount.

The profit and loss for Retra Holdings from the date of acquisition to 31 December 2017 is as follows:

	£'000
Revenue	1,323
Cost of sales	(796)
Gross profit	527
Administrative expenses	(368)
Finance expense	(20)
Profit before tax	139
Tax expense	(21)
Total comprehensive income for the period	**118**

9. Goodwill

	£'000
Cost	
At 1 January 2017	513
Arising on acquisition of Retra Holdings Limited	7,019
At 31 December 2017 (as restated)	7,532
Arising on acquisition of Marvin Leeds Marketing Services, Inc.	331
At 31 December 2018	**7,863**
Impairment	
At 1 January 2017 and 2018	–
Impairment during the year	812
At 31 December 2018	812
Net book value	
At 31 December 2018	**7,051**
At 31 December 2017 (as restated)	7,532

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. The carrying value at 31 December 2018 includes Treasured Scents £513,000, Retra £6,207,000 and LMS £331,000.

Goodwill arising on acquisition in the year ended 31 December 2017 relates to the Group's acquisition of Retra Holdings. During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000 resulting in a reduction in the goodwill figure arising on acquisition from £7,469,000 to £7,019,000. The comparative figures at 31 December 2017 have been adjusted retrospectively. Goodwill arising on acquisition in the year ended 31 December 2018 relates to the Group's acquisition of LMS.

Impairment is calculated by comparing the carrying amounts to the recoverable amount being the higher of value in use derived from discounted cash flow projections or the fair value less costs to sell. A CGU is deemed to be an individual division, and these have been grouped together into similar classes for the purpose of formulating operating segments as reported in note 2. Value in use calculations are based on a discounted cash flow model ("DCF") for the subsidiary, which discounts expected cash flows over a five-year period using a pre-tax discount rate of 16.7% (2017: 15%) for Retra Holdings Limited and 20.1% for LMS. Cash flows beyond the five-year period are extrapolated using a long term average growth rate of 2% (2017: 4.5%). The average growth rate beyond the five-year period is lower than current growth rates and is in line with Management's expectations for the business. The fair value less costs to sell was based on a multiple of earnings less estimated costs to sell. Management have performed the annual impairment review as required by IAS 36 and have concluded that no impairment is indicated for Treasured Scents Limited or LMS as the recoverable amount exceeds the carrying value but that for Retra Holdings goodwill should be impaired by £812,000 as the recoverable amount was assessed as being £6,207,000 compared to the carrying value of £7,019,000.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

9. Goodwill (continued)

Key Assumptions and sensitivity to changes in assumptions

The key assumptions are based upon management's historical experience. The calculation of VIU is most sensitive to the following assumptions:

- Sales and EBITDA – for LMS this is based on forecasts incorporating growth of approximately 75% for the first-year post-acquisition reducing to 10% growth rate for years two to five. For Retra, the growth rate over the next year is anticipated to be 9.1% reducing to approximately 4.3% in years 2 to 5. EBITDA percentages for both LMS and Retra are based on historical rates achieved.
- Discount Rate – pre-tax discount rate of 16.7% for Retra Holdings and 20.1% for LMS reflects the directors' estimate of an appropriate rate of return, taking into account the relevant risk factors
- Growth Rate – used to extrapolate beyond the budget period and for terminal values based on a long term average growth rate of 2% for LMS and Retra.

Sensitivity to changes in assumptions

The impairment review of the Group is sensitive to changes in the key assumptions, most notably the pre-tax discount rate, the terminal growth rate and projected operating cash flows. Reasonable changes to these assumptions are considered to be:

- 1.0% increase in the pre-tax discount rate.
- 1.0% reduction in the terminal growth rate.
- 10.0% reduction in projected operating cash flows.

Reasonable changes to the assumptions used, considered in isolation, would not result in an impairment of goodwill for LMS. For LMS, the value-in-use exceeded the goodwill value by £3.3m.

At 31 December 2018, Retra's goodwill was impaired as its value-in-use fell below the goodwill value. A 1% increase in the pre-tax discount rate would increase the impairment by £1.25 million, a 1% reduction in the terminal growth rate would increase the impairment by £0.8 million and a 10% reduction in projected operating cash flows would increase the impairment by £2.6m.

10. Intangible assets

	Brands £'000	Customer lists £'000	Patents £'000	Website £'000	Licences £'000	Total £'000
Cost						
At 1 January 2017	–	1,318	132	30	6	1,486
On acquisition of subsidiaries	3,802	5,865	–	–	–	9,667
Additions	–	–	42	10	–	52
At 31 December 2017	3,802	7,183	174	40	6	11,205
On acquisition of subsidiaries	–	1,057	–	–	–	1,057
Additions	–	–	43	5	–	48
At 31 December 2018	**3,802**	**8,240**	**217**	**45**	**6**	**12,310**
Accumulated amortisation						
At 1 January 2017	–	44	34	4	1	83
Charge for the year	63	382	16	7	1	469
At 31 December 2017	63	426	50	11	2	552
Charge for the year	761	1,482	20	8	1	2,272
Impairment losses	–	–	–	–	–	–
At 31 December 2018	**824**	**1,908**	**70**	**19**	**3**	**2,824**
Net book value						
At 31 December 2018	**2,978**	**6,332**	**147**	**26**	**3**	**9,486**
At 31 December 2017	3,739	6,757	124	29	4	10,653
At 1 January 2017	–	1,274	98	26	5	1,403

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

11. Property, plant and equipment

	Plant and machinery	Fixtures and fittings	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Costs					
At 1 January 2017	91	73	68	80	312
Additions	5	440	22	88	555
On acquisition of subsidiary	731	60	137	–	928
Disposals	–	–	–	(40)	(40)
At 31 December 2017	827	573	227	128	1,755
Additions	73	192	114	13	392
On acquisition of subsidiary	–	6	2	–	8
Disposals	(3)	–	(12)	–	(15)
At 31 December 2018	**897**	**771**	**331**	**141**	**2,140**
Accumulated depreciation					
At 1 January 2017	40	12	12	11	75
Charge for year	25	122	16	21	184
On disposals	–	–	–	(1)	(1)
At 31 December 2017	65	134	28	31	258
Charge for year	170	194	137	28	529
On disposals	(2)	–	(3)	–	(5)
At 31 December 2018	**233**	**328**	**162**	**59**	**782**
Net book value					
At 31 December 2018	**664**	**443**	**169**	**82**	**1,358**
At 31 December 2017	762	439	199	97	1,497
At 1 January 2017	51	61	56	69	237

The net book value of assets held under finance leases or hire purchase contracts, included above are as follows:

	As at 31 December	
	2018	2017
	£'000	£'000
Plant and machinery	**12**	21
Computer equipment	**41**	67
	53	88

12. Inventories

	As at 31 December	
	2018	2017
	£'000	£'000
Finished goods	**15,472**	11,645
Provision	**(110)**	(114)
	15,362	11,531

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £28,299,077 in the year ended 31 December 2018 (2017: £19,215,000).

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

13. Trade and other receivables

	As at 31 December	
	2018	2017 (restated)
	£'000	£'000
Trade receivables – gross	**11,139**	12,076
Allowance for doubtful debts	**(114)**	(173)
Trade receivables – net	**11,025**	11,903
Other receivables	**485**	1,022
Prepayments and accrued income	**1,010**	751
Deferred tax asset	**241**	–
Total	**12,761**	13,676

The directors consider that the carrying value of trade and other receivables measured at book value and amortised cost approximates to fair value.

Trade receivables amounting to £1,909,000 are pledged as collateral against an invoice financing facility.

The individually impaired receivables relate to the supply of goods to customers. A provision is recognised for amounts not expected to be recovered. Movements in the accumulated impairment losses on trade receivables were as follows:

	As at 31 December	
	2018	2017
	£'000	£'000
Accumulated impairment losses at 1 January	**173**	110
Additional impairment losses (released)/recognised during the year, net	**(14)**	93
Amounts written off during the year as uncollectible	**(45)**	(30)
Accumulated impairment losses at 31 December	**114**	173

The impairment losses recognised during the year are net of a reversal of £14,000 (2017: loss of £93,000) relating to the recovery of amounts previously written off as uncollectable.

14. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	As at 31 December	
	2018	2017
	£'000	£'000
Cash at bank and in hand	**4,041**	3,369
	4,041	3,369

15. Trade and other payables

	As at 31 December	
	2018	2017
	£'000	£'000
Current		
Trade payables	**1,435**	1,671
Social security and other taxes	**476**	568
Other payables	**847**	41
Accruals and deferred income	**731**	1,257
Total	**3,489**	3,537

The directors consider that the carrying value of trade and other payables measured at book value and amortised cost approximates to fair value.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

16. Loans and borrowings

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Bank loans		
Repayable within 1 year	1,992	401
Repayable within 2 – 5 years	139	221
	2,131	622
Hire purchase finance		
Repayable within 1 year	177	181
Repayable within 2 – 5 years	414	593
	591	774
Total		
Repayable within 1 year	2,169	582
Repayable within 2 – 5 years	553	814
	2,722	1,396

The interest rates expected are as follows:

	As at 31 December 2018 %	As at 31 December 2017 %
Finance loans	7	7
Bank loans	10	10
Invoice financing	3.5	–

Secured loans

The borrowings of the group are secured by a debenture including a fixed charge over all present freehold and leasehold property, a first fixed charge over book and other debts and a first floating charge over all assets.

17. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rate of 17% – 25%.

The movement on the deferred tax account is as shown below:

	Deferred tax liability Year ended 31 December 2018 £'000	Deferred tax liability Year ended 31 December 2017 £'000	Deferred tax asset Year ended 31 December 2018 £'000	Deferred tax asset Year ended 31 December 2017 £'000
Opening balance	(1,959)	(278)	–	–
On acquisition of subsidiary	(265)	(1,740)	168	–
Recognised in profit and loss:				
Tax expense	428	59	73	–
Closing balance	(1,796)	(1,959)	241	–

The deferred tax liability has arisen due to the timing difference on accelerated capital allowances amounting to £51,000 (2017: £57,000) and on the intangible assets acquired in a business combination amounting to £1,057,000 (2017: £1,902,000).

In the Finance Act 2016 the UK government announced its intention to reduce the standard corporation tax rate to 17% by 2020. The measure to reduce the rate to 17% for the financial year beginning 1 April 2020 was substantively enacted on 6 September 2016 and has, where applicable, been reflected in the financial statements.

Deferred tax asset has arisen from loss carry forward for LMS amounting to £964,000 and recognised at a rate of 25%.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

18. Dividends

Year to December 2018	Paid	Amount per share	Total £'000
Final dividend – 2017	10 Jul 18	2.6p	1,995
Interim dividend – 2018	13 Nov 18	1.5p	1,150
			3,145

Year to December 2017	Paid	Amount per share	Total £'000
Final dividend – 2016	13 Jul 17	1.5p	968
Interim dividend – 2017	13 Nov 17	1.4p	904
			1,872

19. Called up share capital

	Date	No of shares '000	£'000
Allotted and issued			
Ordinary shares of £0.25 each:			
At 1 January 2017		64,538	16,135
New share issue	30 Nov 17	12,211	3,052
At 31 December 2017 and 2018		**76,749**	**19,187**

All ordinary shares carry equal rights.

20. Reserves

Share premium

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses incurred by the Company.

Retained earnings

Retained earnings represent cumulative profits or losses, net of dividends and other adjustments.

Merger reserve

The merger reserve arose due to the group reconstruction in 2016. The effect of the application of merger accounting principles on the merger reserve is that the share capital and other distributable reserves that existed in Warpaint Cosmetics Group Limited as at the point Warpaint London PLC legally acquired Warpaint Cosmetics Group Limited is accounted for as if it had been in existence as at 31 December 2015 and as at the 1 January 2015. The corresponding entry being the merger reserve so the overall net assets as at the comparative dates are not affected.

The 2016 movement on the merger reserve arose due to the acquisition of Treasured Scent (2014) Limited on 11 November 2016. The shareholders of Treasured Scent (2014) Limited transferred their shares to Warpaint London PLC in exchange for shares in Warpaint London PLC, the difference in fair value of the consideration was £2,005,233. This is adjusted through the merger reserve as it is considered part of the consideration paid by Warpaint London PLC to acquire Treasured Scents (2014) Limited.

The 2017 movement in merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of subsidiary undertaking.

Other reserves

'Other reserves' have arisen from the share-based payment charge. The shares over which the options were issued are that of the parent company. 'Other reserves' have also arisen on translation of foreign subsidiaries.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

21. Share based payments

Movements in the number of options and their weighted average exercise prices are as follows:

	Weighted average exercise price (pence) 2018	Number of options 2018	Weighted average exercise price (pence) 2017	Number of options 2017
Outstanding at the beginning of the year	**237.5**	**255,892**	–	–
Granted during the year	**244.0**	**3,837,462**	237.5	277,788
Expired during the year	**237.5**	**(22,737)**	–	(21,986)
Outstanding at the end of the year	**243.6**	**4,070,617**	237.5	255,892

The weighted average remaining contractual life of the options is 5.0 years.

The following options over ordinary shares have been granted by the Company:

	Exercise price Pence	Exercise period (years)	Number of options
29 June 2017	237.50	3	255,051
21 September 2018	254.5	5	3,837,462

At the date of grant, the options were valued using the Black-Scholes option pricing model. The fair value per options granted and the assumptions used in the calculations were as follows:

	24 Sept 18	29 June 17
Expected volatility	**78%**	64%
Expected life (years)	**10**	3
Risk-free interest rate	**1.61%**	0.38%
Expected dividend yield	**1.53%**	2%
Fair value per option (£)	**0.422**	0.963

On 21 September 2018, share options with an exercise price of 254.5p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to certain directors.

The share options are exercisable up to 10 years from the date of grant. Vesting is subject to the performance conditions set out below:

- 50% of the award is subject to an adjusted EPS growth performance condition. One third of this portion of the award will be tested and vest after three, four and five years. Vesting is based on adjusted EPS in the years ending Dec 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 12.5% compound annual EPS growth and full vesting at 22.5% compound annual EPS growth, measured from 31 December 2017.

- 50% of the award is subject to an absolute TSR performance condition tested following the announcement of results for the years ending 31 December 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 8% compound annual TSR and straight line vesting up to 100% vesting at 18% compound annual TSR, measured from 31 December 2017.

An additional grant of 460,494 share options with the same terms was made on the same date to three senior management individuals of the Company.

On 29 June 2017, the Company granted in aggregate over 277,788 ordinary shares of 25 pence each in the Company under the Enterprise Management Incentive Scheme to all staff members, including the Company's Chief Financial Officer, Neil Rodol, but excluding all other directors at that time. The Options are exercisable for a period of seven years from 29 June 2020, subject to certain performance conditions being met, including that the compound annual growth rate in the Company's earnings per share must exceed 8 per cent over the three financial years commencing 1 January 2017, subject to the discretion of the Company's remuneration committee.

The charge in the statement of comprehensive income for the share based payments during the year was £116,000 (2017: £45,000).

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

22. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Related party transactions are considered to be conducted at arm's length.

Key management personnel are considered to be the directors. Compensation of the directors is disclosed in note 4 with the exception of dividends and drawings which are disclosed in note 18.

During 2018, Warpaint Cosmetics (2014) Ltd paid rent in the sum of £120,000 (2017: £120,000) to Direct Supplies Group Ltd, of which Mr S Bazini is a director. At the year end the amount due to Direct Supplies Group Ltd was £39,518 (2017: £80,000).

During 2018, Warpaint Cosmetics (2014) Ltd paid rent in the sum of £120,000 (2017: £120,000) to Warpaint Cosmetics Ltd, of which Mr E Macleod and Mr S Bazini are directors. At the year end the amount due to Warpaint Cosmetics Ltd was £nil (2017: £36,000).

During 2018, Retra Holdings Limited paid rent in the sum of £197,083 (2017: £nil) to Warpaint Cosmetics Ltd, of which Mr E Macleod and Mr S Bazini are directors.

During the year, the Company advanced £nil (2017: £12,500) to Mr S Bazini, a director of the Company. During the year, the director repaid £100 (2017: £26,276). Mr S Bazini incurred expenses on behalf of the Company totalling £nil (2017: £1,804). At the year end the Company owed the sums of £100 (2017: £nil) to Mr S Bazini.

During the year, the Company advanced £nil (2017: £12,500) to Mr E Macleod, a director of the Company. During the year, the director repaid £100 (2017: £17,711). Mr E Macleod was reimbursed expenses on behalf of the Company totalling £nil (2017: £4,071). At the year end the Company owed the sums of £100 (2017: £Nil) to Mr E Macleod.

23. Financial instruments

Capital risk management

The board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group reports in Sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the board of directors.

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce cost of capital. The capital structure of the Group comprises equity attributable to equity holders of the Company consisting of invested capital as disclosed in the Statement of Changes in Equity and cash and cash equivalents.

The Group's invested capital is made up of share capital and retained earnings totalling £37,550,000 as at 31 December 2018 (2017: £37,120,000) as shown in the statement of changes in equity.

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders and issue of new shares.

	Year ended 31 December	
	2018	2017 (restated)
	£'000	£'000
Financial assets		
Financial assets at amortised cost (2017: loans and receivables) including cash and cash equivalents:		
Cash and cash equivalents	**4,041**	3,369
Trade and other receivables	**11,510**	12,925
	15,551	16,294
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**(3,013)**	(2,969)
Bank loan	**(2,722)**	(1,396)
	(5,735)	(4,365)
Net	**9,816**	11,929

Financial assets measured at fair value through the income statement comprise cash and cash equivalents.

Financial assets measured at amortised cost comprise trade receivables and other receivables.

Financial liabilities measured at amortised cost comprise trade payables and other payables, and bank loans.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

23. Financial instruments (continued)

Cash and cash equivalents

This comprises cash and short-term deposits held by the Group. The carrying amount of these assets approximates their fair value.

General risk management principles

The Group's activities expose it to a variety of risks including market risk (interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management programme and through this programme, the board seeks to minimise potential adverse effects on the Group's financial performance. The directors have an overall responsibility for the establishment of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic, operational and financial risks of the Group is in place to ensure appropriate risk management of its operations.

The following represent the key financial risks that the Group faces:

Market risk

The Group's activities expose it to the financial risk of interest rates.

Interest rate risk

The Group's interest rate exposure arises mainly from its interest-bearing borrowings. Contractual agreements entered into a floating rates expose the entity to cash flow risk. Interest rate risk also arises on the Group's cash and cash equivalents. The Group does not enter into derivative transactions in order to hedge against its exposure to interest rate fluctuations. An increase in the rate of interest by 100 basis points would decrease profits by £18,000 (2017: £13,000) with an increase in profits by the same amount for a decrease in the rate of interest by 100 basis points.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group's principal financial assets are trade and other receivables and bank balances and cash. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to trade receivables. The Group has a policy of assessing credit worthiness of potential and existing customers before entering into transactions. There is ongoing credit evaluation on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group manages the collection of its receivables through its ongoing contact with customers so as to ensure that any potential issues that could result in non-payment of the amounts due are addressed as soon as identified. The Group makes a provision in the financial statements for expected credit losses based on an evaluation of historical data and applies percentages based on the ageing of trade receivables.

The maximum exposure to credit risk in respect of the above is the carrying value of financial assets recorded in the financial statements. At 31 December 2018, the Group has trade receivables of £11,025,000 (2017: £11,903,000).

The following table provides an analysis of trade receivables that were due, but not impaired, at each financial year end. The Group believes that the balances are ultimately recoverable based on a review of past impairment history and the current financial status of customers.

	As at 31 December	
	2018	2017
	£'000	£'000
Current	**4,206**	4,241
1 – 30 days	**3,014**	3,550
31 – 60 days	**2,597**	2,623
61 – 90 days	**924**	868
91 + days	**398**	794
Allowance for doubtful debts	**(114)**	(173)
Total trade receivables – gross	**11,025**	11,903

The directors are unaware of any factors affecting the recoverability of outstanding balances at 31 December 2018 and, consequently, no further provisions have been made for bad and doubtful debts.

The allowance for bad debts has been calculated using a 12 month expected credit loss model, as set out below, in accordance with IFRS 9. There are no receivables subject has been subject to a significant increase in credit risk. The figures presented below for 2017 are for comparison purposes only. The actual doubtful debt allowance for 2017 was £173,000 and the comparatives have not been restated.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

23. Financial instruments (continued)

	As at 31 December 2018			As at 31 December 2017		
	£'000	%	£'000	£'000	%	£'000
Current	4,206	0.122	5	4,241	0.122	5
1 – 30 days	3,014	0.366	11	3,550	0.366	13
31 – 60 days	2,597	1.098	29	2,623	1.098	29
61 – 90 days	924	3.294	30	868	3.294	29
91 + days	398	9.882	39	794	9.882	78
			114			154

Credit quality of financial assets

Trade receivables, gross (Note 13):	As at 31 December 2018 £'000	2017 £'000
Receivable from large companies	3,617	3,929
Receivable from small or medium-sized companies	589	312
Total neither past due nor impaired	4,206	4,241
Past due but not impaired:		
Less than 30 days overdue	3,014	3,550
30 – 90 days overdue	3,805	4,112
Total past due but not impaired	6,819	7,662
Individually determined to be impaired (gross):		
Less than 30 days overdue	16	–
30 – 90 days overdue	98	173
Total individually determined to be impaired (gross)	114	173
Less: Impairment provision	(114)	(173)
Total trade receivables, net of provision for impairment	11,025	11,903

Cash and cash equivalents, neither past due nor impaired (Moody's ratings of respective counterparties):

	As at 31 December 2018 £'000	2017 £'000
A rated	434	800
AA rated	1,086	–
BAA rated	2,521	2,569
Total cash and cash equivalents	4,041	3,369

For the purpose of the groups monitoring of credit quality, large companies or groups are those that, based on information available to management at the point of initially contracting with the entity, have annual turnover in excess of £100,000 (2017: £100,000).

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations as they fall due.

The board receives regular forecasts which estimate cash flows over the next eighteen months, so that management can ensure that sufficient funding is in place as it is required.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

23. Financial instruments (continued)

The tables below summarise the maturity profile of the combined group's non-derivative financial liabilities at each financial year end based on contractual undiscounted payments, including estimated interest payments where applicable:

Year ended 31 December 2018	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Total £'000
Trade payables	1,435	–	–	1,435
Other payables	847	–	–	847
Accruals	731	–	–	731
Bank loans	1,910	259	553	2,722
Estimated interest	50	125	491	666
	4,973	**384**	**1,044**	**6,401**

Year ended 31 December 2017	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Total £'000
Trade payables	1,671	–	–	1,671
Other payables	41	–	–	41
Accruals	1,257	–	–	1,257
Bank loans	–	582	814	1,396
Estimated interest	102	63	201	366
	3,071	**645**	**1,015**	**4,731**

The borrowings of the group are secured by a debenture including a fixed charge over all present freehold and leasehold property, a first fixed charge over book and other debts and a first floating charge over all assets.

Foreign exchange risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposure in respect of cash and cash equivalents, trade receivables and trade payables, in particular with respect to the US dollar. The Group mitigates its foreign exchange risk by negotiating contracts with key suppliers that offer a flexible discount structure to offset any adverse foreign exchange movements and through the use of forward currency contracts. At December 2018, there were total sums of £72,345 (2017: £304,527) held in foreign currency.

The Group is also exposed to currency risk as the assets of its subsidiary are denominated in US Dollars. At 31 December 2018 the net foreign assets were £0.3m (2017: £nil). Differences that arise from the translation of these assets from US dollar to sterling are recognised in other comprehensive income in the year and the cumulative effect as a separate component in equity. The Group does not hedge this translation exposure to its equity.

A 5% weakening of sterling would result in a £4,000 increase in reported profits and equity, while a 5% strengthening of sterling would result in £3,000 decrease in profits and equity.

	2018 £'000	2017 £'000
Derivatives carried at fair value:		
Exchange (loss)/gain on forward foreign currency contracts	–	(3)

The Group, along with other businesses, will face the risk of inflationary pressures through commodities cost increases, further driven by currency weakness post Brexit.

Forward contracts and options

The Group enters into forward foreign exchange contracts and options to manage the risk associated with anticipated sale and purchase transactions which are denominated in foreign currencies.

As at 31 December 2018, the group has 4 (2017: 1) forward foreign exchange contracts outstanding. Derivative financial instruments are carried at fair value.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

23. Financial instruments (continued)

The following table details the foreign currency contracts outstanding as at the balance sheet date.

a) Contracted exchange rate	2018 £/€	2017 £/$
3 months or less	1.1293	1.3393
3 to 6 months	1.1275	–

b) Contract value	2018 £'000	2017 £'000
3 months or less	779	359
3 to 6 months	195	–
	974	359

c) Foreign currency	2018 €'000	2017 $'000
3 months or less	880	481
3 to 6 months	220	–
	1,100	481

Fair value of financial assets and liabilities

Financial instruments are measured in accordance with the accounting policy set out in Note 1. All financial instruments carrying value approximates its fair value with the exception of foreign currency forward contracts and options which are considered Level 2. The directors consider that there is no significant difference between the book value and fair value of the Group's financial assets and liabilities and is considered to be immaterial.

24. Pension costs

The Group operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the statement of comprehensive income in the period to which they relate. The amount charged to profit in each period was £62,900 (2017: £13,800).

25. Operating lease commitments – Group company as lessee

The Group leases offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years and are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Land and buildings	2018 £'000	2017 £'000
Not later than 1 year	700	466
Later than 1 year and not later than 5 years	2,800	1,542
Later than 5 years	2,345	1,290
Total	5,845	3,298

26. Controlling party

In the opinion of the directors there is no ultimate controlling party.

27. Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the period.

The weighted average number of shares for the current year includes the shares issued as consideration for the acquisition of Retra Holdings on 30 November 2017.

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

27. Earnings per share (continued)

	2018	2017
Basic earnings per share (pence)	**4.66**	8.34
Diluted earnings per share (pence)	**4.66**	8.34

The calculation of basic and diluted earnings per share is based on the following data:

Earnings	2018 £'000	2017 £'000
Earnings for the purpose of basic earnings per share, being the net profit	**3,575**	5,473

Number of shares	2018	2017
Weighted number of ordinary shares for the purpose of basic earnings per share	**76,749,125**	65,575,658
Potentially dilutive shares awarded	**–**	–
Weighted number of ordinary shares for the purpose of diluted earnings per share	**76,749,125**	65,575,658

The 4,092,513 share options (2017: 255,862) in issue during the year has not been included in the computation of diluted earnings per share, as per IAS 33, the share options are not dilutive as they are not likely to be exercised given that the exercise price is higher than the average market price.

28. Notes supporting statement of cash flows

Significant non-cash transactions from investing activities is the equity consideration for the business combination of £2,158,000 during the year ended 31 December 2017. The non-cash transactions arising on the acquisition of LMS during the year ended 31 December 2018 and Retra during the year ended 31 December 2017 are as follows:

	2018 Total £'000	2017 Total £'000
Property, plant and equipment	**8**	929
Stock	**1,307**	4,088
Trade and other receivables	**417**	8,698
Deferred tax	**168**	–
Cash and cash equivalents	**272**	292
Trade and other payables	**(1,704)**	(2,234)
Corporation tax	**–**	(74)
Loans	**–**	(8,687)
	468	2,962

Non-cash transactions from financing activities are shown in the table below.

	Non-current loans and borrowings £'000	Current loans and borrowings £'000	Total £'000
At 1 January 2017	–	–	–
Non-cash flows:			
Amounts recognised on business combinations	834	7,855	8,689
Cash flows	(20)	(7,273)	(7,293)
At 31 December 2017	814	582	1,396
Non-cash flows: reclassification of loans	(261)	261	–
Cash flows	–	1,326	1,326
At 31 December 2018	**553**	**2,169**	**2,722**

Company Statement of Financial Position
for the year ended 31 December 2018

	Note	2018 £'000	2017 (restated) £'000
Fixed assets			
Investments	3	**35,833**	34,248
		35,833	34,248
Current assets			
Trade and other receivables	4	**14,988**	11,249
Cash and cash equivalents		**113**	149
Total current assets		**15,101**	11,398
Current liabilities			
Trade and other payables	5	**67**	189
Corporation tax liability		**–**	–
Total current liabilities		**67**	189
Net current assets		**15,034**	11,209
Total assets less current liabilities		**50,867**	45,457
Capital and reserves			
Share capital	6	**19,187**	19,187
Share premium	7	**19,359**	19,359
Merger reserve	8	**1,895**	1,895
Share option reserve		**169**	45
Retained earnings		**10,257**	4,971
Shareholders' funds		**50,867**	45,457

As permitted by section 408 of the Companies Act 2006, the profit and loss account is not presented. The profit for the year amounted to £8,433,000 (2017: £4,592,000).

The financial statements on pages 67 to 70 were approved and authorised for issue by the board of directors on 10 April 2019 and were signed on its behalf by:

Neil Rodol
Chief Financial Officer

The notes on pages 42 to 70 form part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2018

	Notes	Share Capital £'000	Share Premium £'000	Merger reserve £'000	Share Option Reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 31 December 2016		**16,135**	**1,806**	**–**	**–**	**2,251**	**20,192**
Shares issued during the year	6/7	2,789	18,410	–	–	–	21,199
Shares issued for Retra Holdings	6/7	263	–	1,895	–	–	2,158
Share issue costs		–	(857)	–	–	–	(857)
Movement in other reserves		–	–	–	45	–	45
Profit for the year		–	–	–	–	4,592	4,592
Dividends paid		–	–	–	–	(1,872)	(1,872)
As at 31 December 2017		**19,187**	**19,359**	**1,895**	**45**	**4,971**	**45,457**
Movement in other reserves		–	–	–	124	–	124
Profit for the year		–	–	–	–	8,433	8,433
Dividends paid		–	–	–	–	(3,147)	(3,147)
As at 31 December 2018		**19,187**	**19,359**	**1,895**	**169**	**10,257**	**50,867**

The notes on pages 42 to 70 form part of these financial statements.

Notes to the Company Financial Statements
for the year ended 31 December 2018

1. Significant accounting policies

Basis of preparation

These separate financial statements of Warpaint London PLC have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006.

The Company's financial statements are presented in GBP.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available to qualifying entities:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement or net debt reconciliation has been presented for the parent company;
- Disclosures in respect of the parent company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- Disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as set out below.

Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

Going Concern

Going concern for the company has been considered along with the Group by the directors. The consideration is set out in note 1 of the consolidated financial statements.

Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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 discussed below.

Judgements and accounting estimates and assumptions

Impairment of investments

An impairment test is undertaken where there are indicators of the value of the investment being impaired. The directors use judgement in assessing the value of investments held.

Recoverability of intercompany balances

The directors assess the recoverability of balances from group companies based on the estimated trading results of the subsidiary companies.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

Prior year restatement

During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000, on delivery of a final EBITDA statement to the previous owners of Retra, resulting in a reduction in the investment and an increase in the other receivable. The comparative figures at 31 December 2017 have been adjusted retrospectively. This has no impact on the reserves or the shareholders' funds.

2. Staff costs

	Year ended 31 December	
	2018	2017
	£'000	£'000
Wages and salaries	169	147
Social security costs	19	16
Pension costs	2	–
	190	163

Financial Statements

Notes to the Company Financial Statements (continued)

for the year ended 31 December 2018

2. Staff costs (continued)

The average monthly number of employees during the period was as follows:

	Year ended 31 December	
	2018	2017
	No.	No.
Directors	6	6
	6	6

Directors' remuneration, included in staff costs	2018 £'000	2017 £'000
Salaries	169	147
	169	147

The directors are the only key management personnel.

3. Investments

	At 31 December 2018 £'000
Cost	
At January 2018 (as restated)	34,248
Additions	1,585
At December 2018	35,833
Net book value	
At 31 December 2018	35,833
At 31 December 2017 (as restated)	34,248

During the year ended 31 December 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000 resulting in a reduction in the investment figure by £450,000. The comparative figures at 31 December 2017 have been adjusted retrospectively and the corresponding reductions is recognised in other debtors.

On 3 August 2018 Warpaint London PLC acquired the entire share capital in Marvin Leeds Marketing Services Inc.

The Company subsidiaries, as at the period end are shown in note 8 of the consolidated financial statements.

4. Debtors (as restated)

	2018 £'000	2017 (restated) £'000
Due from group undertakings	14,975	10,791
Other debtors	1	450
Prepayments and accrued income	12	8
	14,988	11,249

Amounts due from related undertakings are unsecured, non-interest bearing and payable on demand.

5. Creditors due within one year

	2018 £'000	2017 £'000
Trade payables	–	135
Other taxation and social security	29	27
Accruals and deferred income	38	27
	67	189

6. Called up share capital

	Date	No of shares '000	£'000
Allotted and issued			
Ordinary shares of £0.25 each			
At 1 January		64,538	16,135
New share issue	30 Nov 17	12,211	3,052
At 31 December 2017 and 2018		**76,749**	**19,187**

All ordinary shares carry equal rights.

7. Share premium

	2018 £'000	2017 £'000
Share premium	19,359	19,359

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses incurred by the Company. On 30 November 2017, the Company issued 11,157,894 ordinary £0.25 shares at a price of £1.90 for cash and 1,052,631 shares at a price of £2.05 per share as consideration for an acquisition, resulting in share premium of £20,216,000 less directly attributable share issue costs of £857,000.

8. Other reserves

The movement in merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of subsidiary undertaking.

The share option represents share-based payment charges on the share options that were in issue.

9. Related party transactions

The Company has taken advantage of the disclosure of related party transactions with wholly owned fellow Group companies. Related party transactions with key management personnel (including directors) are shown in note 22 of the Consolidated Financial Statements.

Officers and Professional Advisers

Directors	C Garston S Bazini E Macleod N Rodol S Craig K Sadler P Hagon	Chairman Joint Chief Executive Officer Joint Chief Executive Officer Chief Financial Officer General Counsel & Company Secretary Non-Executive Director Non-Executive Director
Registered Office	Units B&C Orbital Forty Six The Ridgeway Trading Estate Iver Buckinghamshire SL0 9HW	
Company Number	10261717	
Nominated Adviser & Broker	Stockdale Securities Limited 100 Wood Street London EC2V 7AN	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Solicitors	DAC Beachcroft LLP 25 Walbrook London EC4N 8AF	
Registrars	Neville Registrars Limited Neville House Steel Park Road Halesowen West Midlands B62 8HD	
Financial PR	IFC Advisory Limited 24 Cornhill London EC3V 3ND	

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