



WARPAINT LONDON PLC



Annual Report 2017



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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:

- Minimising unnecessary, costly marketing and advertising expenditure
- 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 users
- 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 flexibility to style themselves based on whoever they want to be
- To engage with our customers by interacting with them directly using a variety of media platforms
- To enable easy purchasing for our customers by making products available through direct and third party sales
- To empower our customers by seeking their feedback, interaction and opinions



Headline Results

Headline proforma financial results for the year to 31 December 2017

Warpaint London plc ("Warpaint", the "Company" or the "Group") is made up of three trading divisions. The largest is the own-brand division which sells the Group's leading cosmetic brand W7; the second, Retra Holdings Ltd ("Retra"), acquired in November 2017 is a colour cosmetics business with a significant focus on the gifting market, principally for high street retailers and supermarkets and in addition supplies white label cosmetics produced for several major high street retailers; the third and smallest division trades in close-out and excess stock of branded cosmetics and fragrances from around the world.

On 30 November 2017, the Group acquired Retra for a maximum consideration of £18.2 million (£18.4 million at fair value). This annual report has been prepared in accordance with acquisition accounting standards, therefore in order to present to shareholders a more consistent view of the trading of the Group we have prepared proforma consolidated statements of comprehensive income for the years ended 31 December 2016 and 31 December 2017, with a reconciliation between the proforma and the statutory consolidated statement of comprehensive income.

Headline results, shown below, represent the performance comparisons between the proforma consolidated statements of income for the years ended 31 December 2017 and 31 December 2016.

The proforma numbers have been adjusted to take account of restructuring changes and other non-recurring items in 2016, specifically the inclusion of the trade of the close-out division in that year, and the exclusion of the acquisition of Retra in the year ended 31 December 2017. Reconciliations between the proforma consolidated income statements and the statutory consolidated income statements for the 12 months to 31 December 2016, and the 12 months to 31 December 2017 are included in the Financial Review.

The proforma consolidated statement of comprehensive income for the years ended 31 December 2016 and 31 December 2017 includes the trade of the larger own-brand division plus the trade of the smaller close-out division for the whole of each year and exclude one month of trade related to Retra in the year ended 31 December 2017. The statutory consolidated statement of comprehensive income for the years ended 31 December 2016 and 31 December 2017, include the trade of the larger own-brand division for the whole of each year, plus the trade of the smaller close-out division from the acquisition date of 11 November 2016 only, plus the trade of the Retra division from the acquisition date of 30 November 2017 only.

In 2017, £0.4 million of acquisition costs have been treated as exceptional as they were one off legal and professional fees and commissions incurred in acquiring Retra on 30 November 2017 (2016: £1.7 million of one off expenses related to the admission of the Group's shares to trading on AIM in November 2016).



	Unaudited Proforma results			Statutory results		
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	Growth %	Year ended 31 Dec 2017	Year ended 31 Dec 2016	Growth %
Revenue	£31.2m	£27.0m	15.6	£32.5m	£22.5m	44.4
Adjusted profit from operations	£7.6m*	£6.8m*	11.8	£7.7m*	£6.2m*	24.2
Adjusted profit from operations margin	24.4%*	25.2%*		23.7%*	27.6%*	
Adjusted PBT	£7.5m*	£6.8m*	10.3	£7.7m*	£6.2m*	24.2
Adjusted EPS	9.4p*	8.7p*	8.0	9.6p	7.9p	21.5
Net cash	£2.0m	£3.5m		£2.0m	£3.5m	

* Adjusted for the £0.4 million of Retra Holdings Ltd acquisition costs incurred in the year (2016: IPO costs £1.7 million) and £0.5 million of amortisation costs in relation to acquisitions in the year (2016: £0.04 million)

Highlights

- Proforma revenue increased by 15.6% to £31.2 million (2016: Proforma revenue: £27.0 million)
- Proforma adjusted operating margin 24.4% (2016: 25.2%)
- Proforma adjusted earnings per share increased by 8.0% to 9.4p (2016: Proforma adjusted EPS 8.7p)
- Net cash at the year end of £2.0 million (31 December 2016: £3.5 million)
- Cash generated from operating activities £5.2 million (2016: £3.0 million)
- Own-brand proforma revenue up 17.1% to £11.3 million (2016: £9.6 million) in the UK and 16.8% in the rest of the world to £14.3 million (2016: £12.3 million)
- Acquisition of Retra Holdings Ltd ("Retra") on 30 November 2017 adding Technic, Body Collection and Man'stuff brands.
- Final dividend for the year of 2.6p

Post-Period End Highlight

- Queens Award for Enterprise – International Trade





Clive Garston

Chairman's Statement

2017 was Warpaint's first full year as an AIM company and I am pleased to announce that the year was one of significant growth and achievement. Notwithstanding continuing uncertainty caused by the prospect of Brexit and a fluctuating Sterling exchange rate, the 2017 results are highly satisfactory. The effect of the US dollar exchange rate cannot be overemphasised. Had it been constant with 2016 the margin would have been 2.9 % higher with an accompanying increase in earnings. In addition, in November 2017, Warpaint acquired Retra, which is an own-brand and white label colour cosmetics and gifting company with its head office in Yorkshire. Retra brands include Technic, Body Collection and Man'stuff. The acquisition has been successfully integrated into the Warpaint Group and Warpaint continues to focus heavily on building its brand awareness, both in the UK and its successful overseas markets. I believe that we have made excellent progress in doing this. Following the Retra acquisition the Group's earnings are likely to be greater in the second half of the year than the first, as a result of a substantial proportion of Retra sales being made in connection with Christmas gifts.

Results

The proforma numbers will be quoted throughout this annual report in order to give shareholders clarity in understanding the results for the year.

Profit before tax was £6.9 million (proforma £6.7 million) on a revenue of £32.5 million (proforma £31.2 million) with basic earnings per share of 8.34p. Net cash at 31st December 2017 of £2.0 million

emphasises the Group's strong position. Margins were strong and our priorities are to maximise earnings in all the key markets.

Queen's Award

As was announced on 23rd April 2018, Warpaint has been awarded the Queen's Award for Enterprise – International Trade. This is a very prestigious award and we are all very excited about it. It is further testament to the foresight and hard work of the executive team that this award has been made to Warpaint.

Dividend

In accordance with the Group's progressive dividend policy, the Board is pleased to recommend a final dividend of 2.6p per share which, if approved by shareholders at the AGM, will be paid on the 20th July 2018 to shareholders on the register at the 6th July 2018. The shares will go ex-dividend on the 5th July 2018.

Board and People

These results would not have been possible without the commitment, dedication and enthusiasm of my fellow Board members and all the Group's employees. I would like to thank all of them for their contribution to the Group's success.

A key strength of the Company is the commitment of its employees which helps to make Warpaint the progressive, energetic and dynamic company that it is. Nowhere is this demonstrated more than by the dedication and ambition of the Joint Chief Executives, Sam Bazini and Eoin Macleod and Neil Rodol, the Chief

Financial Officer. 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. During the year, there have been a number of significant hires, which has strengthened the team and the Board is fully supportive of recruiting the right people to make the Group stronger.

Awards of EMI options were made to all staff in June 2017 and it is proposed to introduce an LTIP for senior management in the current calendar year.

Annual General Meeting

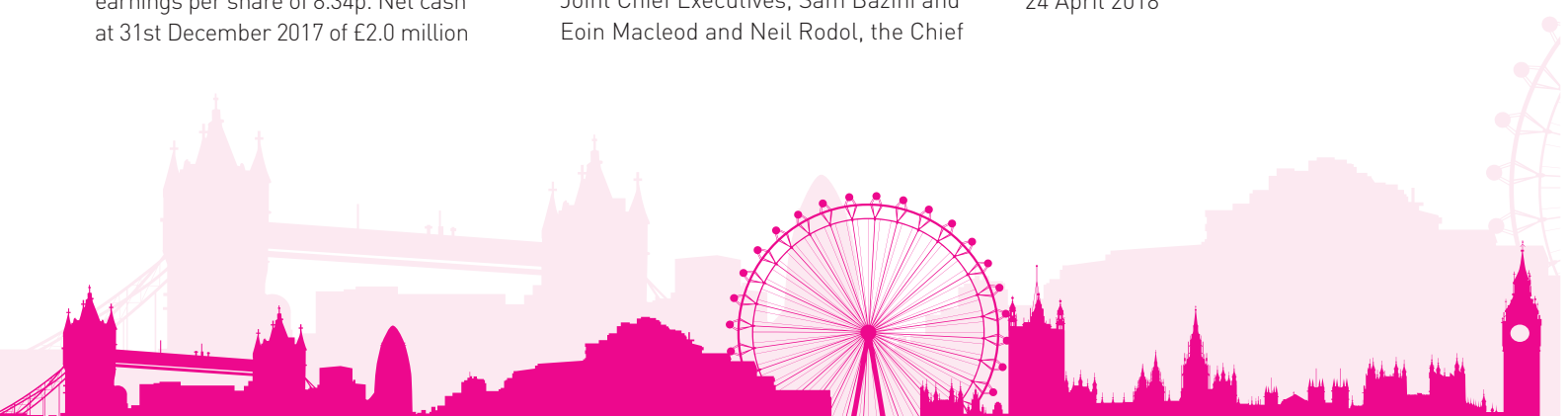
The annual general meeting will be held on 12th June 2018 at 11am at the offices of DAC Beachcroft LLP, 100 Fetter Lane, London, EC4A 1BN. I look forward to meeting all shareholders who are able to attend.

Outlook

After a very successful first year as a quoted company, Warpaint looks to the future with considerable optimism. We have had a promising start to the current year and the Retra acquisition has been well integrated. With a sound financial foundation and being net debt free, prospects are encouraging and Warpaint is well positioned to continue to deliver increasing shareholder value in 2018. The outlook for the Group remains positive.

Clive Garston

Chairman
24 April 2018





Sam Bazini

Eoin Macleod

Joint Chief Executives' Statement

We are delighted to present the Group's first full year results as a public company. 2017 was a very positive year for Warpaint. Our strategy of producing an extensive 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. The acquisition of Retra in November 2017 was a key development for Warpaint, which provides us with new product ranges, new brands and new customers.

Strategy

In order to build our brands, we utilise 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.

While the majority of our brand ranges include core colour cosmetic items, we add on trend items and colourways developed by our growing new product development team, especially within our lead brand W7. This on trend and quick to market model is something our customers demand and expect from us, which we repeatedly deliver on.

Growing market share, both in our home market and overseas, is a focus. We are delighted to have been awarded the Queen's Award for Enterprise – International Trade, this is testament to our growth strategy in recent years and the strength of the W7 brand and the

overall business. We have not exhausted the potential for increased exports and we continue to grow in the UK.

Our key focus is to supply our customers with a wide range of affordable, high quality cosmetics. We will achieve this by continuing to build our internationally recognised brand W7, as well as our newly acquired Retra brands, Technic, Body Collection and Man'stuff and others we have developed such as Very Vegan. We see this as key to supporting our future growth.

China and the US remain of particular focus for us in our international expansion, which we are targeting with focused e-commerce sites, along with social media activities and marketing. During the year we launched our Chinese and US e-commerce sites with the functionality to transact in local currencies.

Our e-commerce platform has now been in operation for over a year to support our customers, both retailers and distributors in the UK and overseas. We saw incremental e-commerce revenue for the first time in 2017, the majority of which came from online sales in the UK. We engage with, and educate our customer base through the website with the use of beauty blogs, celebrity influencers and endorsements, and social media campaigns. During the year we hosted a number of very successful events which generated high profile press coverage, as

well as a number of media campaigns to strengthen our brand awareness.

With the acquisition of Retra in the later part of the year, one of our main priorities was to ensure the smooth integration of the business with the wider Group. We have recruited a new managing director and finance director for Retra. They have replaced the original owners who remain available to the Group on a consultancy basis. We are in an ever stronger position to support our future growth with new and existing customers, demographics, geographies and our ability to stay at the forefront of on trend product development.

Acquisition of Retra

In November 2017 the Group acquired Retra which owns three major brands: Technic, Body Collection and Man'stuff, allowing the Group access to an older age range and a growing male health and beauty market. Retra also produces white label cosmetics for several major high street retailers. Retra is complementary in terms of products, customer relationships and geographic spread. There are natural synergy opportunities within the enlarged Group in sourcing and cross selling.

The integration of Retra into the Group has been very successful and the business is performing well, producing new opportunities for the combined Group.

Joint Chief Executives' Statement (continued)

Brands

During 2017 Warpaint continued to focus on the development of Warpaint's brands which represented 79% of overall revenue generated in comparison to 17% contributed from the close-out side of the business. The contribution from the Retra brands in the period was minimal due to the acquisition completing at the end of November 2017 and totalled 4% of overall revenue in the year.

As previously reported, we launched our Very Vegan range during the second half of the year and we have been very encouraged by the sales we have seen in the period. For 2017, the range included 15 Stock Keeping Units ("SKUs") and for 2018 we are adding 6 SKUs to provide a full range of Very Vegan colour cosmetics.

We have seen development in some of our other brands in the year as well as W7, increasing SKUs in a number of product lines. Outdoor Girl now has 11 SKUs in its range, our W7 Christmas range has now grown to 75 SKUs and the everyday range of W7 now includes 687 live SKUs.

Warpaint brands are:

- W7
- Very Vegan
- Outdoor Girl
- Smooch
- Copy Cat
- Taxi

Additional brands acquired through Retra are:

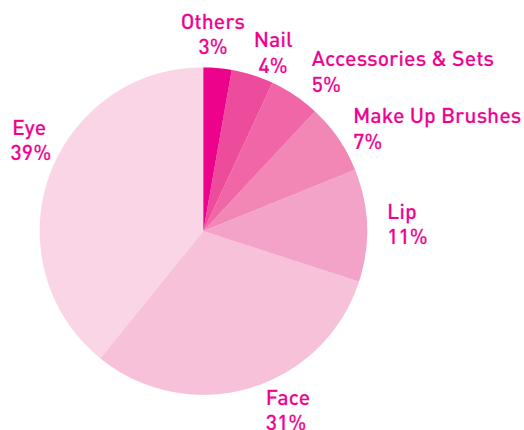
- Technic
- Body Collection
- Man'sstuff

Products

W7's largest selling product categories are eye products, face make-up and lip products, which together represented approximately 80% of the own-brand division's revenue in 2017.

The 12 months to 31 December 2017 product sales split for our W7 brand is shown below:

W7 – 2017 Sales by Product



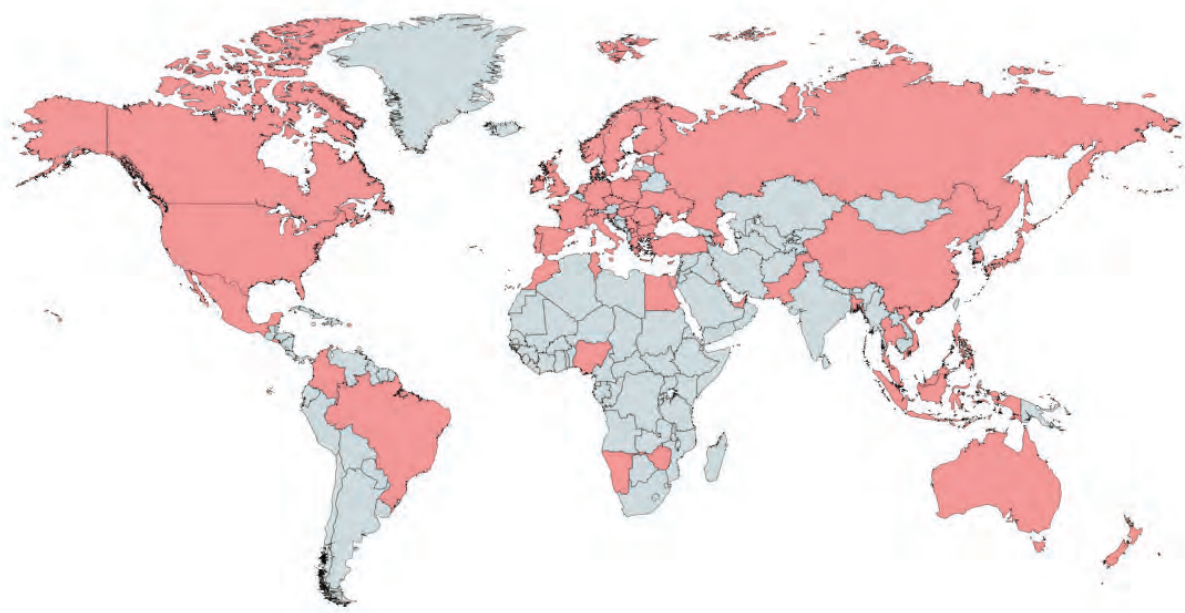
Customers & Geographies

Amongst our largest clients are export customers and distributors from Australia, the US and Europe. At the end of 2017 our top ten W7 customers represented 59.2% of revenues, compared to 56.3% in 2016. In the UK, the W7 brand had growth of 17.1% and internationally the brand grew by 16.8%.

In 2017 W7's global expansion increased and the brand is now sold to more than 60 countries (2016: 50 countries).



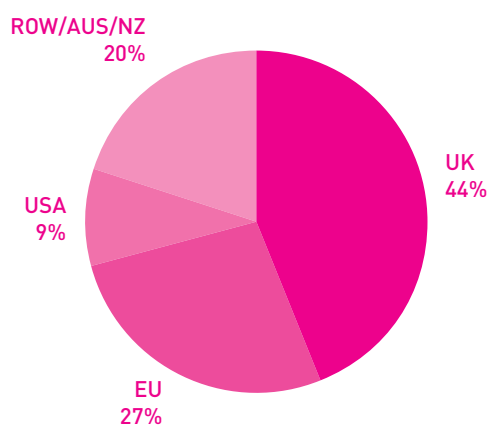
- Country's where W7 is sold
- Country's where W7 is not yet sold



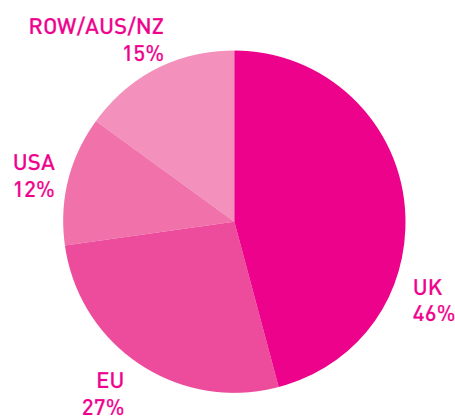
Joint Chief Executives' Statement (continued)

The 12 months to 31 December 2017 and 31 December 2016 regional sales split for our W7 brand is shown below:

W7 – Sales by Region 2017



W7 – Sales by Region 2016



Summary

Our first full year as a public company has been one of strong growth for Warpaint. We have seen geographic expansion, a significant increase in our product offering, both organically and through the acquisition of Retra, as well as growth in our product awareness.

We remain a leader in the sale of on trend colour cosmetics for our growing customer base and are very encouraged by the continued appetite we see from both UK and international customers, further aiding us in growing our sales in the global colour cosmetics market. We intend to continue to drive UK and export sales to new and existing markets, develop our portfolio of brands, as well as maximising the opportunities presented by the Retra acquisition.

We are exceedingly grateful to our employees for their loyalty, commitment and hard work during 2017, a year that has seen yet another big change for Warpaint as we welcomed the Retra team into our Group.

Sam Bazini & Eoin Macleod

Joint Chief Executive Officers
24 April 2018





Neil Rodol

Financial Review

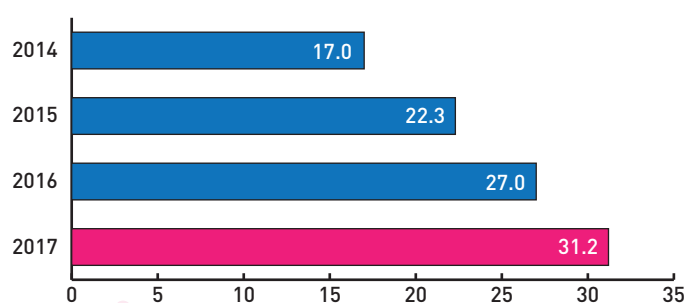
2017 was the first full year for the Group as an AIM company following 24 years as a private business. We delivered continued organic growth in the UK and internationally as well as making the significant acquisition on the 30 November 2017 of Retra. Our KPIs of revenue (on a proforma basis) and profit before tax (on an adjusted proforma basis) improved in the year by 16% and 10% respectively. We remain focused on margin, being debt free (notwithstanding £1.4 million of debt outstanding at the year end from the acquisition of Retra which we intend to repay during 2018), 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 proforma consolidated statement of income for the 12 months to 31 December 2017 compared with the proforma consolidated statement of income for the 12 months to 31 December 2016.

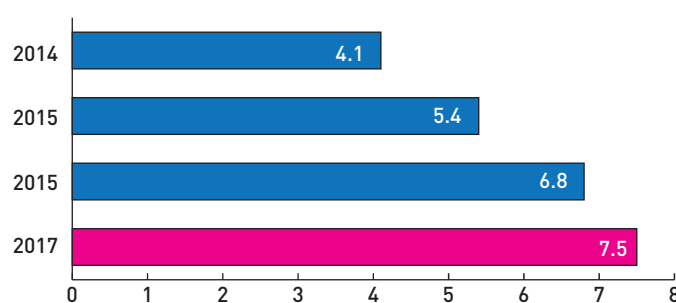
Headline results represent the performance comparisons between the proforma consolidated statements of income for the years ended 31 December 2016 and 31 December 2017. The proforma numbers have been adjusted to take account of restructuring changes and other non-recurring items in 2016, specifically the inclusion of the trade of the close-out division in that year, and the exclusion of the acquisition of Retra in the year ended 31 December 2017. Reconciliations between the proforma consolidated income statements and the statutory consolidated income statements for the 12 months to 31 December 2017, and the 12 months to 31 December 2016 are shown below.

KPIs

Unaudited proforma revenue (£m)
2017: £31.2 million + 16%



Unaudited proforma adjusted profit before tax* (£m)
2017: £7.5 million +10%



*Adjusted for the £0.4 million of one off Retra acquisition costs in 2017 (2016: £1.7 million of one off IPO costs) and £0.5 million of amortisation costs in relation to acquisitions (2016: £0.04 million).

Financial Review (continued)

Proforma Headline Consolidated Income Statement

	2017 Unaudited Proforma Statement £'000	2016 Unaudited Proforma Statement £'000
Revenue	31,226	26,968
Cost of sales	(19,115)	(16,745)
Gross profit	12,111	10,223
Administrative expenses	(5,376)	(5,205)
Analysed as:		
Profit from operations before exceptional items	7,121	6,757
Exceptional items	(386)	(1,739)
Profit from operations	6,735	5,018
Finance expense	(17)	(16)
Profit before tax	6,718	5,002
Tax expense	(1,363)	(1,384)
Profit for the year	5,355	3,618



Reconciliation between the statutory consolidated income statement and the proforma consolidated income statement for the 12 months to 31 December 2017

	2017 Statutory Accounts £'000	Retra business post-acquisition 30 November 2017 (see Note 8) £'000	2017 Unaudited Proforma Statement £'000
Revenue	32,549	1,323	31,226
Cost of sales	(19,911)	(796)	(19,115)
Gross profit	12,638	527	12,111
Administrative expenses	(5,744)	(368)	(5376)
Analysed as:			
Profit from operations before exceptional items	7,280	159	7,121
Exceptional items	(386)	–	(386)
Profit from operations	6,894	159	6,735
Finance expense	(37)	(20)	(17)
Profit before tax	6,857	139	6,718
Tax expense	(1,384)	(21)	(1,363)
Profit for the year	5,473	118	5,355
Weighted number of ordinary shares	65,575,658		65,575,658
Earnings per share	8.34p		8.17p
Profit for the year	5,473		5,355
Add back exceptional items	386		386
Add back amortisation costs in relation to acquisitions	445		445
Adjusted profit for the year	6,304		6,186
Weighted number of ordinary shares	65,575,658		65,575,658
Adjusted earnings per share	9.61p		9.43p

Financial Review (continued)

Reconciliation between the statutory consolidated income statement and the proforma consolidated income statement for the 12 months to 31 December 2016

	2016 Statutory Accounts £'000	Close-out business pre-acquisition 11 November 2016 £'000	2016 Unaudited Proforma Statement £'000
Revenue	22,483	4,485	26,968
Cost of sales	(13,692)	(3,053)	(16,745)
Gross profit	8,791	1,432	10,223
Administrative expenses	(4,374)	(831)	(5,205)
Analysed as:			
Profit from operations before exceptional items	6,156	601	6,757
Exceptional items	(1,739)	–	(1,739)
Profit from operations	4,417	601	5,018
Finance expense	(16)	–	(16)
Profit before tax	4,401	601	5,002
Tax expense	(1,260)	(124)	(1,384)
Profit for the year	3,141	477	3,618
Weighted number of ordinary shares	61,981,720		61,981,720
Earnings per share	5.07p		5.84p
Profit for the year	3,141		3,618
Add back exceptional items	1,739		1,739
Add back amortisation costs in relation to acquisitions	44		44
Adjusted profit for the year	4,924		5,401
Weighted number of ordinary shares	61,981,720		61,981,720
Adjusted earnings per share	7.94p		8.71p

Acquisition and Related Equity Issue

The Group acquired Retra on 30 November 2017. Retra is a colour cosmetics business focusing on the gifting market principally for high street retailers and supermarkets. Retra's revenue is predominantly in the second half of the year when Christmas gifting is delivered, with early visibility of the order book in the first half of the year.

The purchase price was £18.2 million (£16.2 million in cash and £2 million of consideration shares, £18.4 million at fair value). This is subject to adjustment in the event that the 2017 EBITDA is less than £2.85 million. On delivery of a final EBITDA statement to the previous owners of Retra, which will be after the date of these accounts, the actual consideration will be determined and this is likely to lead to a repayment to the Group (see note 8).

The Group raised £21.2 million in cash by issuing 11,157,894 new shares at £1.90 to fund the acquisition of Retra, the associated costs of the placing and to reduce Retra's reliance on its funding arrangements. In addition, a further 1,052,631 new consideration shares were issued as part of the amount paid for Retra.

Revenue

Group proforma revenue for the year grew by 15.6% from £27.0 million in 2016 to £31.2 million in 2017. The sales of W7 branded product grew by 16.4% from £21.9 million in 2016 to £25.5 million in 2017. The close-out business revenue grew by 11.8% from £5.1 million in 2016 to £5.7 million in 2017. Christmas W7 gifting was more significant in 2017 with sales delivered in the second half of the year totalling £2.7 million (2016: £1.6 million). Following the addition of Retra, sales will

be more weighted to the second half of the year and are expected to represent two thirds of the total for 2018.

Our growth strategy remains on track and our recently received honour of the *Queens Award for Enterprise – International Trade* is testament to this. Revenue continues to be driven by increased sales in the UK as we continue to grow our market share and internationally by our growing export business. A detailed commentary on our sales growth strategy and trading performance is included in the CEO's report.

Total statutory revenue grew by 44.4% from £22.5 million in 2016 to £32.5 million in 2017. Statutory revenue includes £1.3 million from the newly acquired Retra business being the sales made in December 2017.

Product Gross Margin

Proforma gross margin improved this year by 2.4% over 2016 to 38.8%. The cost impact of Brexit has been mitigated with a ratcheted discount mechanism from our key supplier in China, by moving production to new factories of equal quality to improve margin, from US dollar revenue which continues to provide a natural hedge and from enjoying margin growth as the W7 brand continues to grow in global awareness. Further contributing to Group margin is the close-out business which has delivered gross margin of 31.1% compared to 25.4% in 2016. We remain focused on improving gross margin in both our own-brand and close-out businesses and now in the enlarged Group including Retra.

Statutory gross margin decreased by 0.8% over 2016 to 38.8%.

Operating Expenses

Underlying proforma operating expenses⁽¹⁾ grew 32.8% year on year, however expressed as a percentage of proforma turnover underlying proforma operating expenses⁽¹⁾ increased to 14.6% in 2017 from 12.7% in 2016. Underlying proforma operating expenses⁽¹⁾ have increased in absolute terms, reflecting the investment of key hires in the business in 2017, increased spend on marketing and PR, foreign exchange loss, amortisation of intangibles and the cost of the PLC board and other AIM costs in the year. However, other operating expenses remain at a similar level to those in 2016.

Statutory operating expenses⁽¹⁾ grew 89.6% year on year, however expressed as a percentage of statutory turnover, operating expenses⁽¹⁾ increased to 15.1% in 2017 from 11.5% in 2016. Statutory operating costs grew because of the factors discussed above, the inclusion of the operating costs of the close-out division for a full year in 2017 and the operating costs of Retra for the month of December only.

Most operating expenses are relatively fixed, however we continue to monitor and examine significant costs to ensure they are controlled and see if they can be reduced, in addition the increased scale of the business now incorporating Retra has given the Group increased buying.

⁽¹⁾ Before exceptional items and amortisation costs in relation to acquisitions.

Financial Review (continued)

Profit from Operations Margin

Proforma profit from operations before exceptional items was £7.1 million for the year being 22.8% of revenue (2016: £6.8 million, 25.1%). During 2017, there were certain costs that were not on a like for like basis with 2016 and were not a function of the natural growth of the business, these were:

- Cost of the PLC board and other AIM costs for a full year: £0.35 million (2016: £0.05 million)
- Amortisation of intangibles from acquisitions for a full year: £0.45 million (2016: £0.04 million)
- Foreign exchange loss: £0.07 million (2016: £0.03 million gain)

Taking these costs into account on an underlying basis profit from operations before exceptional items was £7.9 million for the year being 25.4% of revenue, an improvement of 1.2% on 2016. Profit from operations is a focus of the Group to grow year on year.

Profit Before Tax and Exceptional Items

Proforma Profit Before Tax ("PBT") was £6.7 million (2016: £5.0 million), an increase of 34.0% on the prior year. Underlying PBT (profit before tax and exceptional items) was £7.1 million (2016: £6.7 million), an increase of 6.0% on the prior year. Adding back the additional costs in the year detailed above, like for like underlying PBT was £7.9 million, an increase of 17.9% on 2016.

In the year to 31 December 2017, £0.4 million of Retra acquisition costs have been treated as exceptional (total acquisition costs were £1.2 million of which £0.8 million relates to the issue of new shares to fund the purchase of Retra and these have been charged against the share premium account). In 2016, £1.7 million of expenses

were treated as exceptional as they related to the admission of the Group's shares to trading on AIM.

Statutory Profit Before Tax ("PBT") was £6.9 million (2016: £4.4 million), an increase of 56.8% on the prior year. Underlying PBT (profit before tax and exceptional items) was £7.2 million (2016: £6.1 million), an increase of 18.0% on the prior year.

Exceptional Items

In 2017, £0.4 million of acquisition costs (see Note 3) have been treated as exceptional as they related to one off legal and professional fees and commissions incurred in acquiring Retra on 30 November 2017 (2016: £1.7 million of one off legal and professional fees and commissions incurred in relation to the admission of the Group's shares to trading on AIM in November 2016).

Tax

The proforma tax rate for the Group for 2017 was 20.3% compared to the UK corporation tax standard rate of 19.25% for the year. Some of the costs of the acquisition of Retra have been disallowed for tax purposes, which has increased the effective tax rate. We would expect the tax rate on adjusted profits to be approximately 19% in 2018 and falling in line with the UK Government measures to reduce corporation tax to 17% by 2020.

The statutory tax rate for the Group for 2017 was 20.2% compared to the UK corporation tax standard rate of 19.25% for the year.

Earnings Per Share

The underlying proforma basic earnings per share before exceptional items and amortisation costs in relation to acquisitions was 9.4p in 2017, an increase of 8.1% on the 8.7p achieved in 2016, as a result of improved sales and gross margin.

The statutory basic earnings per share before exceptional items and amortisation costs in relation to acquisitions was 9.6p in 2017, an increase of 21.5% on the 7.9p achieved in 2016.

Dividends

The board is recommending a final dividend for 2017 of 2.6 pence per share, making a total dividend of 4.0 pence per share of which 1.4 pence per share was paid on 17 November 2017 (2016: 5.8 pence per share of which 4.3 pence per share was paid prior to the IPO). The dividend for the year is covered 2.4 times by proforma adjusted earnings per share and with the additional full year earnings of Retra coming through in 2018 there is scope to increase the dividend in the future, in line with the progressive dividend policy outlined at the time of the IPO.

EMI Share Options

On 29 June 2017 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 options had a dilutive impact on earnings per share in the period (see Note 26). The share-based payment charge of the options for the year £0.05 million has been taken to the share option reserve.

Cash Flow and Cash Position

Net cash flow generated from operating activities was £5.2 million (2016: £3.0 million), after payment of the £0.4 million (2016: £1.7 million) exceptional items previously referred to. The Group's cash balance decreased by £0.1 million to £3.4 million in 2017 (2016: £3.5 million). The cash generated was principally used to make dividend payments in the year and reduce debt in Retra.

Capital expenditure requirements of the Group remain modest and we expect it to continue to be so. In 2017 £0.20 million (2016: £0.16 million) was spent on new office space for additional staff, the purchase of a promotional taxi for the W7 brand and general fixtures and plant upgrades. (Also included in the financial statements is capital expenditure of £0.35 million for sales display units that have been reclassified in the balance sheet for 2017).

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 £12.1 million (2016: £2.7 million), the increase on 2016 is due to higher sales and the acquisition of Retra. In 2017 there was a bad and doubtful debt credit of £0.05 million because of the collection of debts previously provided for in 2016. The provision at the year end for bad and doubtful debts carried forward is £0.17 million, 1.4% of gross trade receivables (2016: £0.11 million, 0.41%).

Stock was higher at the year end at £11.6 million (2016: £7.9 million), this increase

was due to the growth of the business, the increase in range offering and the acquisition of Retra. The provision for old and slow stock was £0.11 million, 1.0% at the year end (2016: £0.19 million, 2.5%). The reduction in provision 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 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. £6.0 million of debt was repaid immediately upon acquisition using surplus cash and some of the funds raised to acquire Retra. A further £1.3 million of Retra debt was repaid during December from their own positive cash flow, leaving £1.4 million of debt outstanding at the year end. We intend to repay the remaining debt in 2018 from Group generated normal cash flow.

The Group's balance sheet remains in a very healthy position being net debt free. Net assets totaled £40.4 million at 31 December 2017, an increase of £26.1 million from 2016, reflecting the retained profits generated in the year and the issue of new share capital to fund the purchase of Retra. The majority of the balance sheet is made up of liquid assets of stock, trade receivables and cash. Included in the balance sheet is £8.0 million of goodwill (2016: £0.5 million) and £10.7 million of intangible fixed assets (2016: £1.3 million) arising from the acquisition accounting adopted to reflect the purchase of Retra in the year and the purchase of the close-out business by the much larger own-brand colour cosmetics business in November 2016, in preparation of the Group joining AIM.

Foreign Exchange

The Group imports the majority of its finished goods from China paid for in US dollars, which strengthened on average against Sterling by 5% in 2017 compared to 2016 (\$1.289 v \$1.355). The Group has a natural hedge from sales to the US which are entirely in US dollars, in 2017 these sales were \$3.2 million (2016: \$3.4 million) and together with the ratcheted discount mechanism from our main supplier in China, sourcing product from new factories where it makes commercial sense to do so, by growing our margin through increased brand awareness and by hedging when rates are favourable, we have been able to mitigate the 5% fall in value of Sterling and at the same time deliver an improved gross margin.

As we start 2018 it is pleasing to see that Sterling has strengthened against the US dollar, nevertheless management continue with the same strategy as 2017 to ensure delivery of satisfactory results.

Conclusion

The Group has delivered a good year for shareholders culminating in an acquisition that is expected to be earnings enhancing. Our first full year on AIM has seen the Group grow in size and profits and the Board have put in place personnel and strategies to continue the progress of the Group for the foreseeable future.

Neil Rodol
Chief Financial Officer

24 April 2018

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 2017 one key supplier from China was responsible for approximately 44% (2016: 50%) of the Group's W7 brand range 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 Australia with over 300 stores who has an exclusive rolling one year distribution agreement for the W7 brand of colour cosmetics in Australia. In 2017 this customer represented 14.6% (2016: 10.7%) of own-brand/W7 revenues and we currently have an excellent working relationship with this customer. Significant goodwill in the W7 brand has been built up by this customer. The Directors believe that, should the customer decide to end the distribution agreement, a large amount (if not all) of the existing business will be taken up by other

retailers, local wholesalers or other distributors in Australia. In addition, the Group's US distributor represented 9.6% of own-brand/W7 revenues in 2017 (2016: 12.3%). Since the year end this exclusive distribution agreement has been terminated and the US distributor remains a customer on good terms.

Location

The Group, its operations, and most of its assets are at one location in Iver; if a fire were to befall the premises occupied by the Group, most 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.

This Strategic Report was approved by the Board on 24 April 2018 and signed on its behalf.

Neil Rodol

Chief Financial Officer
24 April 2018





Members of the Board



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



Board of Directors



Sam Bazini, Joint Chief Executive Officer

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.



Eoin Macleod, 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.



Neil Rodol, Chief Financial Officer

Neil joined the Group in August 2015, having previously been an advisor to the business for several years. He has overseen the introduction of new systems and procedures. 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.



Clive Garston, Non-Executive Chairman

Clive 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. Clive has been closely connected with the Quoted Company Alliance and is one of the authors of its corporate governance guidelines.



Paul Hagon, Non-Executive Director

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, Non-Executive Director

Keith is chief financial officer of A Spokesman Said Limited, a radio station operating under the name Love Sport and an online price comparison site. 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, 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

The Directors recognise the importance of sound corporate governance and confirm that the Company complies, so far as practicable and to the extent appropriate for a company of its nature and size, with the recommendations in the QCA Guidelines, which have become a widely recognised benchmark for corporate governance of smaller quoted companies, particularly AIM companies. Following the revision of the AIM Rules for Companies effective 30 March 2018 and specifically AIM Rule 26, which comes into effect on 28 September 2018, it is the Company's present intention to adopt the updated QCA Corporate Governance Code and to comply as far as practically possible with its terms.

Given the size of the Group, the Board currently comprises of three Non-Executive Directors (including the Chairman), Clive Garston, Paul Hagon and Keith Sadler, and three Executive Directors, Sam Bazini, Eoin Macleod and Neil Rodol. The Board considers this to be appropriate at this stage of the Company's development, but will reconsider this as the Group grows in size. The Board retains a range of financial, commercial and entrepreneurial experience and that there is a good balance of skills, independence, diversity and knowledge of both the Company and the sectors in which it operates. 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. No single Director is dominant in the decision-making process.

The Board met eight times during the year for formal Board meetings and a further eight times in between for business including informal business

reviews, to review budgets and focus on strategy. 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 Retra, its newly acquired subsidiary, providing the Board an opportunity to meet with its senior management and be involved with the business of the wider Group.

The Board has established the Audit Committee, Remuneration Committee and Insider Committee with formally delegated duties and responsibilities and with written terms of reference. From time to time separate committees may be 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.

The Group has adopted a code for Directors' and certain employee share dealings which the Directors believe is appropriate for an AIM quoted company. The Directors will comply with the Market Abuse Regime and Rule 21 of the AIM Rules relating to Directors' dealings and in addition will take all reasonable steps to ensure compliance by the Group's applicable employees (as defined in the AIM Rules).

The Board of Directors

The Board of Directors is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions, and reporting to the shareholders.

Dialogue occurs regularly between Directors outside of scheduled meetings. Meeting agendas include 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 in advance to allow Directors adequate time for consideration.

All Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Compliance with the Bribery Act

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.

Internal financial control and reporting

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 Board approves the annual budget and performance against budget is monitored and reported by the Board. 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.



Whistleblowing procedures

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.

Relations with shareholders

The Group reports to shareholders twice a year. The Group dispatches the notice of its Annual General Meeting, together with a description of the items of special business, at least 21 days before the meeting. Each substantially separate issue is the subject of a separate resolution and all shareholders have the opportunity to put questions to the Board at the Annual General Meeting. The Chairmen of the Audit and Remuneration Committees normally attend the Annual General Meeting and will answer questions which may be relevant to their responsibilities.

Insider Committee

The Company has an Insider Committee which consists of Clive Garston (as Chairman), Samuel Bazini and Neil Rodol. The Insider Committee is responsible, inter alia, for the identification of inside information for the purpose of maintaining the Company's insider lists and for reporting that information in accordance with Market Abuse Regulation (EU) 596/2014.





Keith Sadler

Audit Committee Report

The Audit Committee consists of Keith Sadler (as Chairman), Clive Garston and Paul Hagon. The Audit Committee is convened as required. It has responsibility 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.

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:

- Review the significant issues and judgements of management, and the methodology and assumptions used in relation to the Group's financial statements and formal announcements on the Group's financial performance;

- Review the Group's going concern assumptions;
- Assess the effectiveness of the Group's system of internal controls, including financial reporting and financial controls;
- Consider and make recommendations to the Board on the appointment, reappointment, dismissal or resignation and remuneration of the external auditor; and
- Assess the independence and objectivity of the external auditor and approve and monitor the application of the external auditor business standard.

The full terms of reference for the Committee can be found on the Company's website at www.warpaintlondonplc.com and are also available from the Group Company Secretary.

The Chief Financial Officer and the external auditor normally attend Committee meetings. The Committee meet with the external auditor without management present during the year.

External auditor

BDO was appointed by the Board as the Company's external auditor on 26 June 2017 for the 2017 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 £86,000 to BDO for audit services in 2017, 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 £115,000 to BDO in 2017, for tax advice and services relating to the acquisition of Retra Holdings Ltd on 30 November 2017.

Committee performance and effectiveness

As this is the first full year reporting period for the Company and Group as a PLC no review of the performance and effectiveness of the Committee took place.

Audit Committee Report

This Audit Committee Report was reviewed and approved by the Board on 24 April 2018.

Keith Sadler

Audit Committee Chairman
24 April 2018





Paul Hagon

Remuneration Committee Report

The Remuneration Committee consists of Paul Hagon (as Chairman), Clive Garston and Keith Sadler. The Remuneration Committee is convened not less than twice a year and otherwise as required. It 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.

Directors Remuneration Report

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 and Directors' interests

	Salary	Pension	Bonus	Total Remuneration 2017 £	Fair Value of Options	Total Remuneration 2016 £
S Bazini	200,000	–	–	200,000	–	165,000
E Macleod	200,000	–	–	200,000	–	165,000
N Rodol	112,000	–	–	112,000	101,406	166,667
C Garston	60,000	–	–	60,000	–	10,000
P Hagon	30,000	–	–	30,000	–	5,000
K Sadler	40,000	–	–	40,000	–	6,667

The Directors, who held office at 31 December 2017, had the following interests in the shares of the Group:

	Number of share options held at 31 December 2017 ^(c)	Ordinary Shares as % of issued share capital	Number of Ordinary Shares held at 31 December 2017	Number of Ordinary Shares held at 31 December 2016
S Bazini^(a)	–	22.86	17,545,208	20,413,630
E Macleod^(b)	–	22.86	17,505,208	20,413,630
N Rodol	105,262	0.14	103,961	61,856
C Garston	–	0.16	126,315	100,000
P Hagon	–	0.04	31,145	20,619
K Sadler	–	0.04	31,145	20,619

In addition to the above holdings:

(a) 3,000,000 (2016: Nil) shares are held by the wife of S Bazini

(b) 3,000,000 (2016: Nil) shares are held by the wife of E Macleod

(c) For details of the share option scheme see Note 20 on Page 51

There were no changes in the shareholdings of the Directors between 31 December 2017 and the date of this report.

Paul Hagon

Remuneration Committee Chairman
24 April 2018

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 2017. The Corporate Governance Statement on pages 22-23 forms part of this report.

Going concern

The Company's going concern statement can be found in the Consolidated Financial Statements on page 60.

Results and dividends

Results for the year ended 31 December 2017 are set out in the Consolidated Income Statement on page 31.

Directors

The following Directors held office during the year and to the date of authorisation of the accounts:

Non-Executive Chairman

C Garston

Executive Directors

S Bazini

E Macleod

N Rodol

Non-Executive Directors

P Hagon

K Sadler

In accordance with the Company's articles of association Keith Sadler and Eoin Macleod will retire and stand for re-election at the forthcoming Annual General Meeting.

Future development

For details of future developments refer to the Strategic report set out on pages 3-18.

Substantial shareholdings

The Group is aware of the following shareholdings of 3% or more in the share capital as at 31 December 2017:

Shareholder	Number of Shares	%
S Bazini	17,545,208	22.86
E Macleod	17,545,208	22.86
Blackrock Investment Management Limited	8,411,020	11.84
Schroder Investment Management Limited	6,268,000	8.17
Mrs S Bazini	3,000,000	3.91
Mrs L Macleod	3,000,000	3.91
Canaccord Genuity Group Inc.	2,348,612	3.06

Financial instruments

The Group's financial risk management objectives and policies are discussed in note 22 to the consolidated financial statements.

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 brought against its Directors.

The Directors are responsible for preparing the Strategic and Directors' report and the Group financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and

- Prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Statement of disclosure to the auditors

So far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware, and
- 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
24 April 2018



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 2017 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 2017 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.

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 Parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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:

Accounting for business combination

As disclosed in note 8, the group acquired Retra Group Holdings Limited and its subsidiaries ("the acquired group") on 30 November 2017. The acquisition of this business has been accounted for as a business combination under IFRS 3.

The issue – Accounting for business combinations consists of significant judgment in determining the fair value of both the consideration paid for the acquired group and the underlying assets and liabilities of that group, including intangible assets such as customer relationships and brands. Judgment is also exercised in determining the appropriate period over which to amortise the intangible asset in relation to customer relationships and brands. We also consider that there is a risk that the disclosures in the financial statements may not be presented in accordance with the requirements of the accounting standards.

How we addressed the risk – Our audit procedures included challenging the Directors' assessment of the fair value of the consideration paid, the assets acquired and liabilities assumed with reference to evidence provided by third party experts engaged by management. We critically evaluated the capabilities, competence and objectivity of the external valuers engaged by the Directors involved in assessing the fair value of intangible assets and the fair value of the consideration paid by checking their qualifications and background, as well as evaluating and concluding on the appropriateness of their conclusions by comparing them to our knowledge of the industry and market information.

We used our own valuation specialists to challenge the acquisition accounting including the identification of amounts related to customer relationships and brand while we have tested the valuation of the consideration paid by agreement to supporting documents and quoted market price. We also challenged the third party experts and management regarding the amortisation period of the intangible assets in relation to customer relationships and brands. We have considered the period over which the intangibles are to be amortised and benchmarked these against similar assets in competitor businesses.

In addition, we considered the adequacy of the Group's disclosures in respect of the business combinations by checking its appropriateness

based on our workings and its compliance with the requirements of the standards.

Carrying value of inventory

See accounting policy 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 risk – 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.

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 £388,000 which represents 5% of profit before tax and exceptional items. In the prior year materiality was based on 8.5% of profit before tax and exceptional items at £515,000.

Whilst materiality for the financial statements of a whole was £388,000, each component of the Group was audited to a lower level of materiality. Component materiality ranged from £45,000 to £349,200.

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 £271,600 (2016: £381,550) which represents 70% (2016 65%) of the above materiality levels.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £19,400 (2016: £25,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

We used profit before tax before exceptional items as a benchmark given the importance of profit as a measure for shareholders in assessing the performance of the Group.

An overview of the scope of our audit

The group consists of three trading subgroups, all of which are run from the UK. As mentioned above, the group acquired Retra Group Holdings

Limited and its subsidiaries during the year that brings the total of trading subgroups to three. Retra Group Holdings Limited and its subsidiaries only contributed one month of its post-acquisition trading in these group financial statements. In establishing the overall approach to the group audit, we completed full scope audits on the underlying subgroups and the parent company.

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.

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

Independent Auditors' Report (continued)

to the members of Warpaint London PLC

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.

Mark RA Edwards

(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London
24 April 2018

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



Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	Year ended 31 December	
		2017 £'000	2016 £'000
Revenue	1,2	32,549	22,483
Cost of sales		(19,911)	(13,692)
Gross profit		12,638	8,791
Administrative expenses	3,4	(5,744)	(4,374)
Analysed as:			
Profit from operations before exceptional items		7,280	6,156
Exceptional items	3	(386)	(1,739)
Profit from operations	3	6,894	4,417
Finance expense	5	(37)	(16)
Profit before tax		6,857	4,401
Tax expense	6	(1,384)	(1,260)
Profit for the year attributable to equity holders of the parent company		5,473	3,141
Other comprehensive income		–	–
Total comprehensive income attributable to equity holders of the parent company		5,473	3,141
Basic earnings per share (pence)	26	8.34	5.07
Diluted earnings per share (pence)	26	8.34	5.07



Consolidated Statement of Financial Position

as at 31 December 2017

Registered Number: 10261717

	Note	Year ended 31 December	
		2017 £'000	2016 £'000
Non-current assets			
Goodwill	9	7,982	513
Intangibles	10	10,653	1,403
Property, plant and equipment	11	1,497	237
Total non-current assets		20,132	2,153
Current assets			
Inventories	12	11,531	7,669
Trade and other receivables	13	13,226	5,364
Derivative financial instruments	22	–	37
Cash and cash equivalents		3,369	3,503
Total current assets		28,126	16,573
Total assets		48,258	18,726
Current liabilities			
Trade and other payables	14	(3,537)	(2,841)
Loans and borrowings	15	(582)	–
Corporation tax liability		(939)	(1,329)
Derivative financial instruments	22	(3)	–
Total current liabilities		(5,061)	(4,170)
Non-current liabilities			
Bank loan	15	(814)	–
Deferred tax liability	16	(1,959)	(278)
Total non-current liabilities		(2,773)	(278)
Total liabilities		(7,834)	(4,448)
NET ASSETS		40,424	14,278

Consolidated Statement of Financial Position

as at 31 December 2017

Registered Number: 10261717

	Note	2017 £'000	2016 £'000
Equities			
Share capital	18	19,187	16,135
Share premium		19,359	1,806
Merger reserve		(16,100)	(17,995)
Other reserves	19, 20	45	–
Retained earnings		17,933	14,332
TOTAL EQUITY		40,424	14,278

The financial statements of Warpaint London PLC were approved and authorised for issue by the Board of Directors on 24 April 2018 and were signed on its behalf by:

Neil Rodol
Chief Financial Officer



Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Note	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Share option reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2016		15,000	–	(20,000)	–	13,991	8,991
Shares issued for cash	18	644	1,806	–	–	–	2,450
Shares issued for Treasured Scents	18	1,340	–	2,005	–	–	3,345
Share capital reduction	18	(849)	–	–	–	–	(849)
Profit for the year		–	–	–	–	3,141	3,141
Dividends paid	17	–	–	–	–	(2,800)	(2,800)
As at 31 December 2016		16,135	1,806	(17,995)		14,332	14,278
Shares issued during the year	18	2,789	18,410	–	–	–	21,199
Shares issued for Retra Holdings	18	263	–	1,895	–	–	2,158
Share issue costs		–	(857)	–	–	–	(857)
Movement in other reserves	19, 20	–	–	–	45	–	45
Profit for the year		–	–	–	–	5,473	5,473
Dividends paid	17	–	–	–	–	(1,872)	(1,872)
As at 31 December 2017		19,187	19,359	(16,100)	45	17,933	40,424

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	Year ended 31 December	
		2017 £'000	2016 £'000
Operating activities			
Profit before tax		6,857	4,401
Interest paid	5	37	16
Amortisation of intangible assets	10	469	57
Depreciation of property, plant and equipment	11	184	58
Loss on disposal of property, plant and equipment		6	8
Share based payment		45	–
Decrease/(Increase) in trade and other receivables		869	[289]
Decrease/(Increase) in inventories		224	[1,413]
(Decrease)/Increase in trade and other payables		(1,356)	1,601
Cash generated from operations		7,335	4,439
Tax paid		(2,077)	[1,465]
Interest paid		(37)	[16]
Net cash flows from operating activities		5,221	2,958
Investing activities			
Purchase of intangible assets	10	(52)	[77]
Purchase of property, plant and equipment	11	(555)	[163]
Acquisition of business	8	(16,200)	–
Bank balances acquired	8	242	98
Sale of investments		–	[6]
Proceeds from sale of property, plant and equipment		33	–
Net cash used in by investing activities		(16,532)	[148]
Financing activities			
Proceeds from new share capital subscribed		21,199	2,500
Share issue costs		(857)	[53]
Reduction in borrowings		(7,293)	[712]
Dividends	17	(1,872)	[2,800]
Net cash generated by/ (used in) financing activities		11,177	[1,065]
Net increase in cash and cash equivalents		[134]	1,745
Cash and cash equivalents at beginning of period		3,503	1,758
Cash and cash equivalents at end of period		3,369	3,503
Cash and cash equivalents consists:			
Cash and cash equivalents		3,369	3,503
		3,369	3,503

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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 2017 were authorised for issue by the board of directors on 24 April 2018 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 domiciled 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

The consolidated financial statements incorporate the financial statements of the Group and all of its subsidiary undertakings. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passed to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The group was formed after the company, prior to its IPO and listing on AIM, completed share for share transactions for two separate groups owned by the same shareholders. In the financial year ended 31 December 2016, the Board took the view that the most appropriate way to account for these in line with IFRS was to deem the share for share exchange with the Warpaint Group (the own-brand business) as a group reconstruction. This has been accounted for under the basis of merger accounting given that the ultimate ownership before and after the transaction remained the same. Merged subsidiaries undertakings are treated as if they have always been a member of the Group. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to the merger reserve.

There is currently no specific guidance on accounting for group reconstructions such as this transaction under IFRSs. In the absence of specific guidance, entities should select an appropriate accounting

policy and IFRS permits the consideration of pronouncements of other standard-setting bodies. This group reconstruction as scoped out of IFRS 3 has therefore been accounted for in the year ended 31 December 2016 using predecessor accounting principles resulting in the following practical effects;

- (a) The net assets of the two companies are combined using existing book values, with adjustments made as necessary to ensure that the same accounting policies are applied to the calculation of the net assets of both companies;
- (b) No amount is recognised as consideration for goodwill or negative goodwill;
- (c) The consolidated profit and loss account includes the profits or losses of each company for the entire period, regardless of the date of the reconstruction, and the comparative amounts in the consolidated financial statements are restated to the figures presented by the predecessor company Warpaint Cosmetics Group Limited;
- (d) The retained earnings reserve includes the cumulative results of each company, regardless of the date of the reconstruction, and the comparative amounts in the statement of financial position were restated in 2016 to that presented by the predecessor company Warpaint Cosmetics Group Limited

The share for share exchange of the other group of companies, namely Treasured Scents (the close-out business) was acquired on 11 November 2016 and has been treated as an acquisition under IFRS 3.

On 21 November 2016, the Company also undertook a capital reduction pursuant to which 16,340,000 B ordinary shares of £0.052 each held by Sam Bazini and Eoin Macleod were cancelled in consideration for the transfer of the entire issued share capital of Warpaint Cosmetics Limited to a company owned and controlled by Sam Bazini and Eoin Macleod.

On 30 November 2017, the company acquired 100% of the share capital of Retra Holdings Limited by way of a share for share exchange which has been treated as an acquisition under IFRS 3. All subsidiaries have a reporting date of December. All transactions and balances between Groups companies are eliminated on consolidation. The amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure the consistency with the accounting policies of the Group.

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

Revenue for the Group is measured at the fair value of the consideration received or receivable. The Group recognises revenue for goods sold net of discounts and provisions when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

1. Significant accounting policies (continued)

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 company's warehouse according to the terms of sale.

Where the company 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 company's overseas supplier or from the company's UK warehouse. Revenue will therefore be recognised from the date of dispatch.

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 Retra Holdings Limited (2016: costs in relation to listing the company on AIM). 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.

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:

Land and buildings	– 50 years
Plant and machinery	– 25% reducing balance
Fixtures and fittings	– 25% reducing balance
Computer equipment	– 25% reducing balance
Motor vehicles	– 20% straight line

Financial assets

The Group classifies its financial assets into the categories, discussed below, due to the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the supply of goods to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transactions 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.

The Group's loans and receivables comprise of trade and other receivables included within the combined statement of financial position.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

1. Significant accounting policies (continued)

Cash and cash equivalents include cash held at bank and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the combined statement of financial position.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following:

- 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.

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 profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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.

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 profit or loss 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 balance sheet date 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.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling of the Statement of Financial Position date. Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at operating profit.

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.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

1. Significant accounting policies (continued)

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.

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.

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.

Changes in accounting policies

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB 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 9 'Financial instruments'

The IASB have released IFRS 9 'Financial Instruments', representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Group's management have yet to assess the impact of IFRS 9 on these consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and

several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Group's management have not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 'Leases'

IFRS 16 represents new requirements for the recognition of operating leases, replacing IAS 17 'Leases'. The new standard requires that certain operating leases are disclosed within the Statement of Financial Position. The Group's management have yet to assess the impact of IFRS 16 on these consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2019.

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 make a 50% provision for perishable items of stock that are greater than 18 months old. Should the Group increase the provision to 100% of perishable items that are greater than 18 months old, this would decrease profit by £114,000.

(b) Intangible assets acquired

On acquisition of Treasured Scents (2014) Limited 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.

On acquisition of Retra Holdings Limited the group has recognised the customer list and brands 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. A one per cent increase in the discount rate from 15% to 16% would reduce the fair value of customer lists by approximately £220,000. A reduction in the growth rate of cash flows beyond the five-year period from 4.5% to 3.5% would reduce the fair value of customer list by approximately £130,000.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

1. Significant accounting policies (continued)

The valuation of the brands is based on judgement involved in assessing the future royalties arising from the 'Technic' and 'Man'Stuff' brands. 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 15% to 16% would reduce the fair value of brands by approximately £150,000.

2. Segmental information

For management purposes, the Group is organised into two operating segments; Branded and Close-out. The segment 'W7 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.

	2017	2017	2017	2016	2016	2016
	Own-Brand	Close-out	Total	Own-Brand	Close-out	Total
Year ended 31 December	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	26,890	5,659	32,549	21,862	621	22,483
Cost of sales	(16,012)	(3,899)	(19,911)	(13,078)	(614)	(13,692)
Gross profit	10,878	1,760	12,638	8,784	7	8,791
Administrative expenses	(4,423)	(935)	(5,358)	(2,483)	(152)	(2,635)
Exceptional items	(386)	-	(386)	(1,739)	-	(1,739)
Segment result	6,069	825	6,894	4,562	(145)	4,417
Reconciliation of segment result to profit before tax:						
Segment result	6,069	825	6,894	4,562	(145)	4,417
Finance expense	(37)	-	(37)	(16)	-	(16)
Profit before tax	6,032	825	6,857	4,546	(145)	4,401
Analysis of total revenue by geographical market:						
UK	12,070	4,507	16,577	9,617	615	10,232
USA	2,483	160	2,643	2,612	-	2,612
Australia	3,740	156	3,896	2,315	-	2,315
Rest of World	8,597	836	9,433	7,324	-	7,324
Total	26,890	5,659	32,549	21,868	615	22,483

During the year ended 31 December 2017, the Group had 1 customer that exceeded 10% of total revenue being 11%. During the year ended 31 December 2016, the Group had 1 customer that exceeded 10% of total revenue being 12%.

Information regarding segment assets and liabilities as at 31 December 2017 and capital expenditure for the period then ended:

	Own-Brand	Close-out	Eliminations*	Total
	£'000	£'000	£'000	£'000
Total assets	76,389	3,108	(31,239)	48,258
Total liabilities	(5,112)	(817)	(1,905)	(7,834)
Tangible asset additions	1,483	-	-	1,483
Intangible asset additions	12,539	-	-	12,539
Total capital expenditure	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 2017

3. Operating profit

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

	Year ended 31 December	
	2017	2016
	£'000	£'000
Foreign exchange loss/(gain)	71	(28)
Depreciation and amortisation	653	115
Loss on disposal of fixed asset	6	8
Operating lease costs	373	263
Exceptional costs	386	1,739

Exceptional costs in the year ended 31 December 2017 of £386,000 relate to legal and professional fees incurred on the acquisition of Retra Holdings Limited (2016: costs in relation to listing the company on AIM £1,739,000).

Analysis of auditor's remuneration is as follows:

	Year ended 31 December	
	2017	2016
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Group's annual accounts	20	13
Fees payable to the Company's auditor for the audit of subsidiary companies	66	49
	86	62
Other services pursuant to legislation:		
Tax advice	1	30
Transaction related services	114	308
Total non-audit fees	115	338

4. Staff costs

	Year ended 31 December	
	2017	2016
	£'000	£'000
Wages and salaries	2,789	1,413
Social security costs	243	159
Pension costs	19	6
	3,051	1,578

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

	Year ended 31 December	
	2017	2016
	No.	No.
Directors	6	3
Administrative	6	5
Finance	3	2
Warehouse	25	22
Sales	4	4
Other	8	4
	52	40

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

4. Staff costs (continued)

	2017 £'000	2016 £'000
Directors' remuneration, included in staff costs		
Salaries	653	330
Bonus	–	150
Pension contributions	–	–
	653	480

Remuneration in respect of Directors was as follows:

	Salary /fees £'000	Bonus £'000	Benefits £'000	Pension contribution £'000	2017 £'000	2016 £'000
Executive Directors						
C Garston	60	–	–	–	60	10
S Bazini	200	–	6	–	206	146
E Macleod	200	–	5	–	205	146
N Rodol	112	–	–	–	112	166
Non-executive Directors						
K Sadler	40	–	–	–	40	7
P Hagon	30	–	–	–	30	5
	642	–	11	–	653	480

	Number of Shares at January 2017	Awarded in the year	Number of shares Lapsed in the year	Number of Shares at December 2017	Exercise Price	Earliest Exercise Date	Exercise Expiry Date
N Rodol	–	105,262	–	105,262	237.5p	29/06/2020	29/06/2027
Total share options	–	105,262	–	105,262			

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

5. Finance expense

	Year ended 31 December	
	2017 £'000	2016 £'000
Loan interest	15	16
HP interest	5	–
Other interest	17	–
	37	16

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

6. Income tax

	Year ended 31 December	
	2017	2016
	£'000	£'000
Current tax expense		
Current tax on profits for the period	1,473	1,225
Adjustment in respect of previous periods	(30)	19
	1,443	1,244
Deferred tax expense		
Origination and reversal of temporary differences	(59)	16
Total tax expense	1,384	1,260

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	
	2017	2016
	£'000	£'000
Profit for the period before tax	6,857	4,401
Expected tax charge based on corporation tax rate of 19.25% (2016: 20%)	1,319	880
Expenses not deductible for tax purposes	178	361
Other adjustments		3
Prior year adjustments	(30)	19
Adjustment to deferred tax to average rate	(87)	(3)
Total tax expense	1,384	1,260

The UK corporation tax at the standard rate for the year is 19.0% (2016: 20.0%).

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 19% for the financial year beginning 1 April 2017 and to 17% for the financial year beginning 1 April 2020 were substantively enacted on 6 September 2016 and have been reflected in the calculation of deferred tax in the December 2017 numbers.

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%

* indicates indirect interest

On 30 November 2017, the Company acquired 100% of the issued share capital of Retra Holdings Limited and its subsidiary undertaking Badgequo Limited, Retra Own Label Limited, Badgequo Deutschland GmbH and Badgequo Hong Kong Limited.

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 the USA incorporated subsidiary is 160 Greentree Drive, Suite 101, Dover, DE 19904, Kent County, USA.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

7. Subsidiaries (continued)

The registered office for the German incorporated subsidiary is Robert-Bosch-Straße 10, Haus 1, 56410 Montabaur, Germany.

The registered office for the Hong Kong incorporated subsidiary is 12F, 3 Lockhart Road, Wanchai, Hong Kong.

8. Acquisitions

Retra Holdings Limited

On 30 November 2017, the Group acquired the entire share capital of Retra Holdings Limited ("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. Had Retra Holdings been consolidated from 1 January 2017, the consolidated income statement for the year ended 31 December 2017 would show additional revenue of £18,944,000 and profit before tax of £1,849,000.

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

	Book value	Fair value adjustment	Total
	£'000	£'000	£'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			7,469
Consideration			18,358

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

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

The fair value of consideration paid is as follows:

	£'000
Cash consideration	16,200
Share consideration	2,158
	18,358

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 is dependent on an EBITDA statement to be agreed according to the Sale and Purchase agreement terms and delivery of the statutory accounts of Retra Holdings Limited. The purchase price was £18.36 million (£16.2 million in cash and £2 million of consideration shares) this being the maximum amount payable. On delivery of a final EBITDA statement to the previous owners of Retra, which will be after the date of these accounts the actual consideration will be determined and this is likely to lead to a repayment to the Group, although the amount at the date of these accounts is not certain.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

8. Acquisitions (continued)

The profit and loss for Retra Holdings Limited 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

Treasured Scents (2014) Limited

On 11 November 2016, the Group acquired the entire share capital of Treasured Scents (2014) Limited ("Treasured Scents (2014)"), a close-out cosmetics wholesaler based in the UK. The principal reason for acquiring Treasured Scents was due to the company operating in the same industry and the client relationships maintained by the directors, Mr E. Macleod and Mr S. Bazini.

Treasured Scents (2014) has contributed £621,260 to revenue for the period between the date of acquisition and the balance sheet date. Had Treasured Scents been consolidated from 1 January 2016, the consolidated income statement for the year ended 31 December 2016 would show revenue of £26,968,000 and profit before tax of £4,927,000.

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

	Book value £'000	Fair value adjustment £'000	Total £'000
Client relationships	–	1,318	1,318
Property, plant and equipment	14	–	14
Stock	960	–	960
Trade and other receivables	1,142	–	1,142
Cash and cash equivalents	98	–	98
Trade and other payables	(334)	–	(334)
Current tax liabilities	(116)	–	(116)
Deferred tax liabilities	–	(250)	(250)
Net assets acquired	1,764	1,068	2,832
Goodwill arising on acquisition			513
Consideration			3,345

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

Goodwill comprises the value of expected synergies and other opportunities arising from the acquisition, management know how, the skilled work force employed by Treasured Scents (2014) Limited and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for tax purposes. The fair value of consideration has been calculated by means of an EBITDA multiple supported by a discounted cashflow model.

The fair value of consideration paid is as follows:

	£'000
Share consideration	3,345
	3,345

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

8. Acquisitions (continued)

The profit and loss for Treasured Scents (2014) Limited from the date of acquisition to 31 December 2016 is as follows:

	£'000
Revenue	615
Cost of sales	(614)
Gross profit	1
Administrative expenses	(152)
Loss before tax	(151)
Tax expense	19
Total comprehensive loss for the period	(132)

9. Goodwill

	£'000
Cost	
At 1 January 2017	513
Arising on acquisition of Retra Holdings Limited	7,469
At 31 December 2017	7,982
Impairment	
At 31 December 2016 and 31 December 2017	–
Net book value	
At 31 December 2017	7,982
At 31 December 2016	513

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.

Goodwill arising on acquisition in the year ended 31 December 2016 relates to the Group's acquisition of Treasured Scents (2014) Limited. Goodwill arising on acquisition in the year ended 31 December 2017 relates to the Group's acquisition of Retra Holdings Limited.

Impairment is calculated by comparing the carrying amounts to the value in use derived from discounted cash flow projections for Treasured Scents and Retra Holdings. 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 15% (2016: 15%). Cash flows beyond the five-year period are extrapolated using the average growth rate of 4.5% (2016: 0.5%). 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. Management have performed the annual impairment review as recognised by IAS 36 and have concluded that no impairment is indicated with the fair value of goodwill exceeding book value.

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 – this is based on reasonable forecasts for the first year. These have been forecasted for years two to five based on expected sales trends
- Discount Rate – pre-tax discount rate of 15% 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 4.5% (2016: 0.5%).

Management believe that no reasonably possible change in key assumptions would lead to an impairment of goodwill.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

10. Intangible assets

	Brands £'000	Customer list £'000	Patents £'000	Website £'000	Licences £'000	Total £'000
Cost						
At 1 January 2016	–	–	91	–	–	91
On acquisition of subsidiaries	–	1,318	–	–	–	1,318
Additions	–	–	41	30	6	77
At 31 December 2016	–	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
Accumulated amortisation						
At 1 January 2016	–	–	26	–	–	26
Charge for the year	–	44	8	4	1	57
At 31 December 2016	–	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
Net book value						
At 31 December 2017	3,739	6,757	124	29	4	10,653
At 31 December 2016	–	1,274	98	26	5	1,403
At 1 January 2016	–	–	65	–	–	65

11. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Costs						
At 1 January 2016	1,400	83	26	35	–	1,544
Additions	–	6	43	42	72	163
On acquisition of subsidiary	–	2	4	–	8	14
Disposals	(1,400)	–	–	(9)	–	(1,409)
At 31 December 2016	–	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
Accumulated depreciation						
At 1 January 2016	37	26	3	3	–	69
Charge for year	14	14	9	10	11	58
On disposals	(51)	–	–	(1)	–	(52)
At 31 December 2016	–	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
Net book value						
At 31 December 2017	–	762	439	199	97	1,497
At 31 December 2016	–	51	61	56	69	237
At 1 January 2016	1,363	57	23	32	–	1,475

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

11. Property, plant and equipment (continued)

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

	As at 31 December	
	2017	2016
	£'000	£'000
Plant and machinery	21	–
Computer equipment	67	–
	88	–

12. Inventories

	As at 31 December	
	2017	2016
	£'000	£'000
Finished goods	11,645	7,858
Provision	(114)	(189)
	11,531	7,669

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £19,215,000 in the year ended 31 December 2017 (2016: £11,690,172).

13. Trade and other receivables

	As at 31 December	
	2017	2016
	£'000	£'000
Trade receivables – gross	12,076	2,674
Allowance for doubtful debts	(173)	(110)
Trade receivables – net	11,903	2,564
Other receivables	572	16
Prepayments and accrued income	751	2,784
Total	13,226	5,364

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

The individually impaired receivables are over three months past due and 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	
	2017	2016
	£'000	£'000
Accumulated impairment losses at 1 January	110	100
Additional impairment losses recognised during the year, net	93	12
Amounts written off during the year as uncollectible	(30)	(2)
Effect of translation to presentation currency	–	–
Accumulated impairment losses at 31 December	173	110

The impairment losses recognised during the year are net of a credit of £52,000 (2016: £2,000) relating to the recovery of amounts previously written off as uncollectable.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

14. Trade and other payables

	As at 31 December	
	2017	2016
	£'000	£'000
Current		
Trade payables	1,671	2,537
Social security and other taxes	568	–
Other payables	41	23
Accruals and deferred income	1,257	281
Total	3,537	2,841

The directors consider that the carrying value of trade and other payables measured at book value and amortised cost approximates to fair value. Included in other payables are amounts owed to directors of Enil as at 31 December 2017 (2016: £16,918). The amounts owed to the directors are interest free and are repayable on demand.

15. Loans and borrowings

	As at 31 December	
	2017	2016
	£'000	£'000
Bank loans		
Repayable within 1 year	401	–
Repayable within 2 – 5 years	221	–
	622	–
Hire purchase finance		
Repayable within 1 year	181	–
Repayable within 2 – 5 years	593	–
	774	–
Total		
Repayable within 1 year	582	–
Repayable within 2 – 5 years	814	–
	1,396	–

The interest rates expected are as follows:

	As at 31 December	
	2017	2016
	%	%
Finance loans	7	–
Bank loans	10	–
	622	–

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

16. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rate of 19%-20%.

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

	Year ended 31 December	
	2017 £'000	2016 £'000
Opening balance	278	11
On acquisition of subsidiary	1,740	251
<i>Recognised in profit and loss:</i>		
Tax expense	(59)	16
Closing balance	1,959	278

The deferred tax has arisen due to the timing difference on accelerated capital allowances amounting to £57,000 (2016: £36,000) and on the intangible assets acquired in a business combination amounting to £1,902,000 (2016: £242,000).

In July 2015 the UK government announced its intention to reduce the standard corporation tax rate to 17% by 2020. The measure to reduce the rate to 19% for the financial year beginning 1 April 2017 and to 18% for the financial year beginning 1 April 2020 were substantively enacted on 26 October 2015 and have been reflected in the calculation of deferred tax in the December 2017 numbers.

17. Dividends

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

Year to December 2016	Paid	Amount per share	Total £'000
			£'000
Interim dividend	4 April 16	£12,000	1,200
Interim dividend	25 Nov 16	9.79p	1,600
			2,800

The payment of dividends prior to the group restructuring on 11 November 2016 were based on 100 ordinary shares in issue.

18. Called up share capital

	Date	As at 31 December	
		No of shares £'000	2017 £'000
Allotted and issued			
Ordinary shares of £1 each			
Share issue on incorporation	11 Nov 16	16,340	16,340
Sub-division to A and B shares	15 Nov 16	16,340	–
Cancellation of B shares	21 Nov 16	(16,340)	(849)
Consolidation and subdivision of shares into ordinary shares 25p	24 Nov 16	45,621	–
Ordinary shares of £0.25 each		61,961	15,491
New share issue	30 Nov 16	2,577	644
At 1 January 2017		64,538	16,135
New share issue	30 Nov 17	12,211	3,052
		76,749	19,187

On 30 November 2017, the company issued 12,210,525 ordinary £0.25 shares resulting in an increased share capital of £3,052,631.

All ordinary shares carry equal rights.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

19. Other 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. 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.

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 (the company) 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.

20. Share based payments

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

	Weighted average exercise price (pence)	Number of options
	2017	2017
Outstanding at the beginning of the year	–	–
Granted during the year	237.5	277,788
Expired during the year	–	(21,896)
Outstanding at the end of the year	237.5	255,892

The weighted average remaining contractual life of the options is 2.5 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	277,788

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:

	29 June 17
Expected volatility	64%
Expected life (years)	3
Risk-free interest rate	0.38%
Expected dividend yield	2%
Fair value per option (£)	0.963

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

20. Share based payments (continued)

On 29 June 2017, Warpaint London PLC 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. 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 £45,091.

21. 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 key management personnel (including Directors) is disclosed in note 4 with the exception of dividends and drawings which are disclosed in note 17.

During 2017, Treasured Scents (2014) Ltd paid rent in the sum of £Nil (2016: £123,750) to Trading Scents Group Limited, of which Mr Macleod is a director. At the year end the amount due to Trading Scents Group Limited was £Nil (2016: £Nil).

During 2017, Warpaint Cosmetics (2014) Ltd paid rent in the sum of £120,000 (2016: £30,000) to Trading Scents Group Limited, of which Mr Macleod is a director. At the year end the amount due to Trading Scents Group Limited was £80,000 (2016: £Nil).

During 2017, Warpaint Cosmetics (2014) Ltd paid rent in the sum of £120,000 (2016: £153,750) to Direct Supplies (2014) Group Limited, of which Mr Bazini is a director. At the year end the amount due to Direct Supplies (2014) Group Limited was £Nil (2016: £Nil).

During 2017, Warpaint Cosmetics (2014) Ltd paid consultancy fees in the sum of £Nil (2016: £150,000) to Outdoor Girl Limited, of which Mr Rodol is a director.

During the year, the company advanced £12,500 (2016: £15,000) to Mr S Bazini, a director of the company. During the year, the director repaid £26,276 (2016: £93,803). Mr S Bazini incurred expenses on behalf of the company totalling £1,804 (2016: £2,002). At the year end the company owed the sums of £Nil (2016: £15,779) to Mr S Bazini.

During the year, the company advanced £12,500 (2016: £15,000) to Mr E Macleod, a director of the company. During the year, the director repaid £17,711 (2016: £84,803). Mr E Macleod was reimbursed expenses on behalf of the company totalling £4,071 (2016: £2,663). At the year end the company owed the sums of £Nil (2016: £1,140) to Mr E MacLeod.

Dividends paid to Mr S Bazini prior to the company listing on AIM in 2016 totalled £600,000. Dividends paid to Mr E Macleod prior to the company listing on AIM in 2016 totalled £600,000.

22. 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 £37,120,000 as at 31 December 2017 (2016: £30,467,000) 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.



Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

22. Financial instruments (continued)

Capital risk management (continued)

	Year ended 31 December	
	2017	2016
	£'000	£'000
Financial assets		
Loans and receivables at amortised cost including cash and cash equivalents:		
Cash and cash equivalents	3,369	3,503
Trade and other receivables	12,475	2,617
	15,844	6,120
Financial liabilities		
Trade and other payables	(2,969)	(2,841)
Bank loan	(1,396)	–
	(4,365)	(2,841)
Net	11,479	3,279

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 at 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 £13,000 (2016: £Nil) 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 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 2017, the Group has trade receivables of £11,903,000 (2016: £2,564,000).

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

22. Financial instruments (continued)

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.

Credit risk (continued)

	As at 31 December	
	2017 £'000	2016 £'000
Current	4,241	1,296
1 – 30 days	3,550	1,084
31 – 60 days	2,623	112
61 – 90 days	868	89
91 + days	794	93
Allowance for doubtful debts	(173)	(110)
Total trade receivables – gross	11,903	2,564

The Directors are unaware of any factors affecting the recoverability of outstanding balances at 31 December 2017 and, consequently, no further provisions have been made for bad and doubtful debts.

Credit quality of financial assets

	As at 31 December	
	2017 £'000	2016 £'000
Trade receivable, gross (Note 13):		
Receivable from large companies	3,929	984
Receivable from small or medium-sized companies	312	312
Total neither past due nor impaired	4,241	1,296
Past due but not impaired:		
Less than 30 days overdue	3,550	1,084
30 – 90 days overdue	4,112	184
Total past due but not impaired	7,662	1,268
Individually determined to be impaired (gross):		
Less than 30 days overdue	–	–
30 – 90 days overdue	173	110
Total individually determined to be impaired (gross)	173	110
Less: Impairment provision	(173)	(110)
Total trade receivables, net of provision for impairment	11,903	2,564

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

	As at 31 December	
	2017 £'000	2016 £'000
A rated	800	–
BAA rated	2,569	3,502
Total cash and cash equivalents	3,369	3,502

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 (2016: £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 2017

22. Financial instruments (continued)

Liquidity risk (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 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

Year ended 31 December 2016	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Total £'000
Trade payables	2,537	–	–	2,537
Other payables	23	–	–	23
Accruals	281	–	–	281
Bank loans	–	–	–	–
	2,841	–	–	2,841

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 2017, there were total sums of £304,527 (2016: £495,146) held in foreign currency.

A 5% weakening of sterling would result in a £16,000 increase in reported profits and equity, while a 5% strengthening of sterling would result in £14,000 decrease in profits and equity.

	2017 £'000	2016 £'000
Derivatives carried at fair value:		
Exchange (loss)/gain on forward foreign currency contracts	(3)	37

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 2017, the group has 1 (2016: 2) forward foreign exchange contracts outstanding. Derivative financial instruments are carried at fair value.

Notes to the Company Financial Statements (continued)

for the year ended 31 December 2016

22. Financial instruments (continued)

Forward contracts and options (continued)

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

a) Contracted exchange rate £/\$ rate	2017	2016
3 months or less	1.3393	1.2411 – 1.266
3 to 6 months	–	–
	2017	2016
b) Contract value	£'000	£'000
3 months or less	359	1,398
3 to 6 months	–	–
	359	1,398
	2017	2016
c) Foreign currency	£'000	£'000
3 months or less	481	1,750
3 to 6 months	–	–
	481	1,750

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 are considered to be Level 3 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.

23. 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 £13,800 (2016: £6,228).

24. Operating lease commitments – Group company as lessee

The group leases offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5-10 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:

	2017	2016
Land and buildings	£'000	£'000
Not later than 1 year	466	360
Later than 1 year and not later than 5 years	1,542	1,440
Later than 5 years	1,290	1,650
Total	3,298	3,450

25. Controlling party

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

26. 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 acquisition of Warpaint Cosmetics Group Limited by Warpaint London PLC on 11 November 2016 has been accounted for using merger accounting principles. The effect of using merger accounting principles on share capital is that the capital that existed 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 the comparative period end (31 December 2015) and as at the opening balance sheet date (1 January 2015).

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

26. Earnings per share (continued)

The weighted average number of shares in issue for the prior year has therefore been stated to reflect the post IPO share capital structure, this adjustment assumes the total shares issued during the IPO were in issue throughout the whole of the current and previous period presented. The weighted average number of shares includes the shares issued as consideration for the acquisition of Treasured Scents (2014) Limited on 11 November 2016.

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

	2017	2016
Basic earnings per share (pence)	8.34	5.07
Diluted earnings per share (pence)	8.34	5.07

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

	2017 £'000	2016 £'000
Earnings		
Earnings for the purpose of basic earnings per share, being the net profit	5,473	3,141

	2017	2016
Number of shares		
Weighted number of ordinary shares for the purpose of basic earnings per share	65,575,658	61,981,720
Potentially dilutive shares awarded	–	–
Weighted number of ordinary shares for the purpose of diluted earnings per share	65,575,658	61,981,720

The 255,862 share options issued 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.

27. 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. The non-cash transactions arising on the acquisition of Retra are as follows:

	Total £'000
Property, plant and equipment	929
Stock	4,088
Trade and other receivables	8,698
Cash and cash equivalents	292
Trade and other payables	(2,234)
Corporation tax	(74)
Loans	(8,687)
	2,962

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

	Non-current loans and borrowing £'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

Company Statement of Financial Position

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	3	34,698	16,340
		34,698	16,340
Current assets			
Trade and other receivables	4	10,799	3,060
Cash and cash equivalents		149	859
Total current assets		10,948	3,919
Current liabilities			
Trade and other payables	5	189	67
Corporation tax liability		–	–
Total current liabilities		189	67
Net current assets		10,779	3,852
Total assets less current liabilities		45,457	20,192
Capital and reserves			
Share capital	6	19,187	16,135
Share premium	7	19,359	1,806
Merger reserve	8	1,895	–
Share option reserve		45	–
Retained earnings		4,971	2,251
Shareholders' funds		45,457	20,192

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 £4,592,000 (2016: £3,851,000).

The financial statements on pages 58 to 61 were approved and authorised for issue by the Board of Directors on 24 April 2018 and were signed on its behalf by:

Neil Rodol
Chief Financial Officer

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Note	Share Capital £'000	Share Premium £'000	Merger reserve	Share Option Reserve	Retained Earnings £'000	Total Equity £'000
On incorporation		16,340	–	–	–	–	16,340
Shares issued during the period	6/7	644	1,806	–	–	–	2,450
Profit for the year		–	–	–	–	3,851	3,851
Share capital reduction	6	(849)	–	–	–	–	(849)
Dividends paid		–	–	–	–	(1,600)	(1,600)
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



Notes to the Company Financial Statements for the year ended 31 December 2017

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 these financial statements the company has taken advantage of the disclosure exemptions conferred by FRS 102. Therefore, these financial statements do not include:

- a statement of cash flows;
- financial instruments;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with wholly owned fellow group companies.

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.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Statement of comprehensive income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

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.

2. Staff costs

	Year ended 31 December	
	2017 £'000	2016 £'000
Wages and salaries	147	24
Social security costs	16	–
Pension costs	–	–
	163	24

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

	Year ended 31 December	
	2017 No.	2016 No.
Directors	6	6
	6	6

	Year ended 31 December	
	2017 £'000	2016 £'000
Directors' remuneration, included in staff costs	147	24
Salaries	147	24

The directors are the only key management personnel.

3. Investments

	At 31 December 2017	
	£'000	
Cost		
At January 2017		16,340
Additions		18,358
At December 2017		34,698
Net book value		
At 31 December 2017		34,698
At 31 December 2016		16,340

On 30 November 2017 Warpaint London PLC acquired the entire share capital in Retra Holdings Limited.

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

Notes to the Company Financial Statements (continued)

for the year ended 31 December 2017

4. Debtors

	2017 £'000	2016 £'000
Due from group undertakings	10,791	3,036
Other debtors	–	16
Prepayments and accrued income	8	8
	10,799	3,060

5. Creditors due within one year

	2017 £'000	2016 £'000
Trade payables	135	47
Other taxation and social security	27	–
Accruals and deferred income	27	20
	189	67

6. Called up share capital

		As at 31 December	
	Date	No of shares '000	2017 £'000
Allotted and issued			
Ordinary shares of £1 each			
Share issue on incorporation	11 Nov 16	16,340	16,340
Sub-division to A and B shares	15 Nov 16	16,340	–
Cancellation of B shares	21 Nov 16	(16,340)	(849)
Consolidation and subdivision of shares into ordinary shares 25p	24 Nov 16	45,621	–
Ordinary shares of £0.25 each		61,961	15,491
New share issue	30 Nov 16	2,577	644
At 1 January 2017		64,538	16,135
New share issue	30 Nov 17	12,211	3,052
		76,749	19,187

On 30 November 2017, the company issued 12,210,525 ordinary £0.25 shares resulting in an increased share capital of £3,052,631.

All ordinary shares carry equal rights.

7. Share premium

	2017 £'000	2016 £'000
Share premium	19,359	1,806

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.

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 21 of the Consolidated Financial Statements.



Officers and Professional Advisors

Directors	C Garston S Bazini E Macleod N Rodol K Sadler P Hagon	Chairman Joint Chief Executive Officer Joint Chief Executive Officer Chief Financial Officer Non-Executive Director Non-Executive Director
Company Secretary	S Craig	
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 100 Fetter Lane London EC4A 1BN	
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands, B63 3DA	
Financial PR	IFC Advisory Limited 15 Bishopsgate London EC2N 3AR	

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