

The background of the entire page is a dark, textured surface. Scattered across this surface are various cosmetic items: a pile of pinkish-red crushed powder in the top left, a round compact of pink powder in the top right, a tube of pink lipstick in the middle left, a round compact of pink powder in the bottom left, and a clear glass perfume bottle with a silver cap on the right side, from which a stream of clear liquid is pouring. At the bottom of the page, there is a white silhouette of the London skyline, featuring the London Eye and several church spires.

# WARPAINT LONDON PLC

Interim Report  
Six Months Ended 30 June 2018



17 September 2018

**Warpaint London PLC**  
(“Warpaint”, the “Company” or the “Group”)

**Interim Results for the six months ended 30 June 2018**

Warpaint London plc (AIM: W7L), the specialist supplier of colour cosmetics and owner of the W7 and Technic brands, is pleased to announce its unaudited interim results for the six months ended 30 June 2018.

**Financial Highlights**

- Sales up 38.7% to £18.4 million\* in H1 2018 from £13.3 million in H1 2017
- Like for like\*\* sales up 7.3% in H1 2018 compared to H1 2017
- 35.9%\* growth in own brand sales, 33.2% growth in close-out sales
- Gross profit up 30.0% to £6.7 million\* from £5.2 million in H1 2017
- Adjusted Profit from Operations of £2.8 million\* in the half year (before exceptional items, depreciation and amortisation costs) (H1 2017 £3.1 million)
- Net cash of £4.6 million at 30 June 2018 (30 June 2017: £2.5 million)
- Interim Dividend increased by 7% to 1.5p per share (2017 1.4p)

\* H1 2018 numbers include the trade of Retra Holdings Ltd (“Retra”) acquired on 30 November 2017

\*\* Like for like excludes the trade of Retra

**Operational Highlights**

- W7 brand continues overall sales growth year on year in particular in export markets in the EU +35.3% and USA +3.4% (+15.4% in US\$ terms)
- UK sales now 44% of total business (H1 2017: 49%), as strategic emphasis on international expansion continues
- Significantly increased Christmas orders to be delivered, own brands order book of £8.2 million\* at 30 June 2018 (30 June 2017: £7.2 million including Retra)
- E-commerce strategy now soft launched in the USA with local fulfillment in place
- Retra acquisition successfully integrated (acquired 30 November 2017)
- Queen’s Award for Enterprise – International Trade awarded

**Post-Period End Highlights**

- Strategic acquisition of USA distributor, Leeds Marketing, for US\$2.16 million on 2 August 2018
- EBITDA adjustment agreed on purchase of Retra resulting in a repayment of £0.45 million

## Outlook

We have had a solid start to the current year and the Retra acquisition has been well integrated. The additional acquisition of our distributor business in the USA on 2 August 2018 will accelerate our growth into the largest colour cosmetics market in the world and provide useful dollar based income.

With our strong 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.

The emphasis on Christmas gifting of our own brands across the Group has resulted in an order book that was significantly ahead at 30 June 2018 compared to the same point in 2017 on a comparable basis (including the own brand orders of Retra in H1 2017), allowing us visibility and confidence for the full year outturn.

In addition our e-commerce strategy for the W7 brand in the USA (to be replicated in a similar manner in China), the further development of our other own brands and the successful launch of the Very Vegan range, will strengthen our growth plans for this year and beyond.

We are confident that we can deliver improving shareholder returns through increased organic growth and improved margins.

**Commenting, Sam Bazini and Eoin Macleod, Joint Chief Executives said:** “We are pleased with the progress we have made in the first half of 2018. The Retra acquisition has been successfully integrated into the business and we are confident that our additional acquisition of Leeds Marketing will provide us enhanced access to the USA, the largest colour cosmetics market in the world worth US\$11 billion.

“The additional revenues in the second half, particularly from Christmas gifting, are expected to result in overall revenue being two thirds weighted to the second half of this financial year and with a fixed cost base that is evenly spread over the full year, we expect to deliver overall Group earnings in line with management’s expectations.

“We remain confident in the opportunities for Warpaint in the future and look forward to delivering against our strategy and promoting our brands around the world.”

**Enquiries:****Warpaint London PLC**

c/o IFC

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Warpaint London is a colour cosmetics business, based in Iver, Buckinghamshire. It is made up of two divisions: close-out and own-brand. The second and larger own-brand division primarily consists of the Group's flagship brand, W7, together with the Technic, Body Collection and Man'sstuff brands acquired through the acquisition of Retra Holdings in 2017.

W7 is an extremely creative, design-focused cosmetic brand proposition with a focus on the 16-30 age range, delivering high-quality cosmetics at affordable prices. The W7 brand has grown organically since its inception in 2002 and sells into high street retailers and independent beauty shops across the UK, Europe, Australia and the USA. In 2017, W7 was supplied in more than 60 countries.

In 2017 Warpaint completed the acquisition of Retra Holdings Limited, a UK colour cosmetics business with a significant focus on the gifting market, principally for high street retailers and supermarkets including Boots, Superdrug and Asda. Retra owns three major brands: Technic, Body Collection and Man'sstuff, in addition to supplying white label cosmetics produced for several major high street retailers.

## Joint Chief Executives' Review

With the acquisition of Retra in November 2017 now fully integrated into the Group, sales of own brand colour cosmetics accounts for 84% of turnover (H1 2017: 83%). The own brand business remains the primary strategic focus of the Group and with the significant sales of Christmas gifting being delivered in the second half of the year the overall percentage of own brand sales for the Group will increase further. We expect overall Group earnings to be two thirds weighted to the second half of this financial year.

During the first half of 2018 we have successfully integrated the Retra business, acquired at the end of November 2017.

We continue to use manufacturing partners in China and Europe for our own brand business giving us the flexibility to choose those manufacturers we feel produce the best product for the best price, and meet our legal and ethical compliance requirements. Helping in this process is the Hong Kong based subsidiary sourcing office (acquired as part of the Retra transaction) and its locally based Chinese subsidiary office with local employees able to explore new factories and oversee quality control and ethical sourcing from new factories.

The close-out division in the six months to 30 June 2018 represented 16% of the overall revenue of the Group. Whilst not a core focus for the Group, this side of the business provides a significant source of intelligence in the colour cosmetics market and access to new market trends. Although close-out is less significant for the Group's strategy, it has had a very good first half of 2018 with sales ahead of the same period in 2017 by 33.2%.

Our e-commerce platform in the UK provides a shop window for customers and provides a significant contribution towards our marketing budget for the W7 brand. The W7 brand growth is supported by a more engaged and educated customer base, driven by the success of beauty blogs, celebrity endorsement and social media. Similar marketing strategies will be deployed for our USA and Chinese e-commerce sites, with the USA site now soft launched with local fulfillment in place.

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 and brand range has received so far this year.

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

## Acquisition of Leeds Marketing

On 2 August 2018 the Group acquired its USA distributor, Leeds Marketing, for US\$2.16 million in cash. Two thirds of Leeds Marketing revenue is from distributing W7 products, the remainder being other branded cosmetics through its close-out activities. Leeds Marketing sells W7 to retail groups in the USA and Canada including TJ Maxx and Winners, and has recently opened new accounts for the W7 brand with Century 21, Forever 21 and Macys Backstage. The USA is the largest colour cosmetics market in the world and developing

sales into the region is a strategic goal for the growth of our brands. In addition to this acquisition at the end of 2017, we took on a USA based National Account Sales Manager to develop the USA market and her work is now resulting in further new account openings which are handled and fulfilled directly by Leeds Marketing.

## **Strategy**

The Board recently adopted a three year strategic plan for the business which identified six key strategic priorities:

### **1. Continue to develop and build our brands**

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

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

### **2. Provide New Product Development (“NPD”) that meets consumers changing needs and tastes**

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

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

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

With our lead brand W7 we are exploring opportunities into new sales channels and product categories e.g. sun protection, fragrance, and health and beauty accessories.

For our brand ranges to remain relevant we identify products for exit through our close-out business effectively and profitably.

### **3. Grow Market Share in the UK**

Our e-commerce platform has now been in operation for over a year. The sales revenue coming from online sales in the UK, although modest, contributes to overall marketing costs. We have strategies in place to further develop revenue through the UK site and improve the online consumer experience as it provides a shop window for customers.

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

#### **4. Grow USA awareness and sales of the W7 brand and launch W7 successfully in China**

The USA strategic goal is underway with the acquisition of Leeds Marketing; this locally based resource together with the e-commerce site now soft launched will enable a more rapid expansion in the USA.

In China, we have several initiatives underway including a Chinese facing e-commerce site with the functionality to transact in local currency. We have developed some good relationships locally with wholesale customers and this business is gradually growing. The acquisition of Retra included a People's Republic of China subsidiary which we are currently changing the status of so that it can become a trading entity locally in China.

#### **5. Reduce Costs**

Throughout the Group, costs are monitored against budget to identify potential savings. We are developing our supply chain to be more efficient and have the capacity to match our growth, this may involve supplier consolidation to help reduce the cost of goods. We are maximising the cost saving synergy opportunities from recent acquisitions and looking at how Group administration functions can be made more efficient and costs can be reduced.

#### **6. Drive Shareholder Value**

The Board has developed a three year rolling plan for the Group, which can be measured, monitored and reviewed each year. The plan has defined targets for sales, EBITDA, earnings per share, cash and share price. Understanding and following the six key strategic priorities will help deliver the expected growth in the business.

### **Brands**

In the first half of 2018 the Group continued to focus on the development of its own brands which represented 84% (H1 2017: 83%) of overall revenue generated in comparison to 16% (H1 2017: 17%) contributed from the close-out business. The H1 2018 results include, for the whole period, the brands acquired from Retra following the acquisition in November 2017.

Our Very Vegan range has seen a very encouraging start to 2018 with sales almost three times the level of the same period in 2017. For 2017, the range included 15 Stock Keeping Units ("SKUs") and for 2018 we are adding six SKUs to provide a full range of Very Vegan colour cosmetics.

	H1 2018	H1 2017
<b>Group own brand sales</b>	%	%
W7	70%	98%
Technic	19%	0%
Other own brands	11%	2%
	<b>100%</b>	<b>100%</b>

## Products

The largest selling product categories across all the Group brands including white label sales, are eye products, face make-up and lip products, which together represented approximately 79% of revenue in the first half of 2018 (H1 2017: 86%).

The six months to 30 June 2018 product sales split for all our brands including white label sales:

Eyes	40%
Face	29%
Lip	10%
Nails	6%
Brushes	5%
Accessories & Sets	4%
Others	4%
Mens	1%

## Customers & Geographies

Our largest customers for our own brand sales remain export customers in the USA, Australia and Europe. In 2017 our top ten own brand customers represented 59.2% of revenues; with the introduction of the Retra own brands for the first half of 2018, our top ten customers now represent 50.1% of total revenue – although, as the delivery of our significant Christmas gifting orders begins in H2 2018, we expect this percentage to be closer to the 2017 percentage. Our W7 USA distributor (before the acquisition in August 2018), which sells to customers across the country, expanded from 9.0% of W7 sales in 2017 to 14.1% in H1 2018.

In the first half of 2018 W7 was sold into 56 countries globally.

### USA

We have continued to see growth in the USA through our now acquired distributor. Group sales for all our brands into the USA were up in the first half of the year, increasing 8.4% compared to the same period in 2017. Sales of W7 were up 3.4% on the same period in 2017 (in local currency the increase was 15.3%, the difference being due to exchange rates). Recently we have gained new customers for H2 2018 to be fulfilled directly in the USA now that our acquisition of Leeds Marketing has completed.

### Europe

Group sales in Europe increased in H1 2018 by 110.4% compared to the same period in 2017, this is mainly because of the large proportion of sales made into Europe by our Retra business is now included in the six month period to June 2018. In addition, the W7 brand has seen significant European growth of 35.5% in the first half of 2018 against the same period last year.



## **Rest of the World**

W7 remains the sixth most recognised colour cosmetics brand in the Australian market according to our local distributor. Sales in our Rest of the World region for the Group are down by 11.6% in the period, compared to the corresponding period last year, this is due to the timing of large orders supplied to our Australian distributor for W7 and therefore we expect this percentage to grow overall for the full year 2018.

## **UK**

Trading conditions in the UK remain challenging because of the UK high street slow down and ongoing Brexit anxiety. Notwithstanding this, Group sales in the UK were up by 26% in H1 2018 compared to H1 2017. This figure includes the Retra sales for the first time in 2018. For W7 alone, sales in the UK were down 13% for the half year 2018 compared to H1 2017, most of which was due to container problems at Felixstowe port in June this year which delayed deliveries.

We have a record order book for Christmas gifting already secured across the Group, which will be delivered during H2 2018 and we expect UK sales to improve in H2 2018. This will be the primary driver of revenues being two thirds weighted to the second half of the year.

## **Summary**

We have had a solid start to the current year and the Retra acquisition has been well integrated. The additional acquisition of our distributor business in the USA on 2 August 2018 will accelerate our growth into the largest colour cosmetics market in the world and provide useful dollar based income.

With our strong 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.

**Sam Bazini and Eoin Macleod**  
**Joint Chief Executive Officers**  
17 September 2018

## Financial Review

The first half of 2018 has seen the Group continue its strategy of building the W7 brand internationally and since the acquisition of the Retra own brands in November 2017, the further development of Technic, Body Collection and Man'stuff. We remain focused on margin, being debt free (£0.9 million of debt outstanding at the half year from the acquisition of Retra is to be repaid during the second half of 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 interim consolidated statement of comprehensive income for the half year ended 30 June 2018 compared with the interim consolidated statement of comprehensive income for the half year ended 30 June 2017, with reference to "comparable" numbers which include the Retra business for the half year to 30 June 2017 where appropriate. Comparable numbers include the trade of Retra for the half year to 30 June 2017 as if it had been part of the Group for that period.

## Acquisitions

Post period end, on 2 August 2018, the Group acquired its USA distributor Leeds Marketing. In the year to 31 December 2017 Leeds Marketing had revenue of US\$5.9 million and profit before tax (adjusted for non-recurring costs after completion of the acquisition) of approximately US\$0.4 million. Net Assets, adjusted for a capital reorganisation on completion of the acquisition, as at 31 December 2017, were US\$1.1 million. Under the terms of the acquisition the consideration comprised US\$2.16 million in cash, subject to an adjustment depending on the net assets acquired which are expected to be US\$0.8 million. The Company has paid US\$2 million in cash with two further payments of US\$80,000 due on 30 September 2018 and 31 December 2018, subject to the net asset adjustment.

The Group acquired Retra on 30 November 2017. Following the determination after the half year end of the Retra EBITDA the Group received a repayment of £0.45 million.

## Revenue

Total revenue grew by 38.7% from £13.3 million in H1 2017 to £18.4 million in H1 2018. Strategy for growth includes continuing to develop and build our brands, provide NPD that meets consumers changing needs and tastes, to grow UK market share, and to grow USA awareness and sales of the W7 brand and launch W7 successfully in China.

Group own brands sales were £15.4 million in the first half of the year (H1 2017: £11.0 million). Our W7 brand had sales in the first half of the year of £11.3 million (H1 2017: £11.0 million). The own brands acquired from Retra in November 2017 contributed sales of £4.1million in the first half of the year, of this, Technic amounted to £2.9 million.

The close-out division had sales in the first half of the year of £3.0 million (H1 2017: £2.2 million). Whilst encouraging that sales increased on the same period last year, close-out remains an opportunity business and the full year outturn is not expected to be significantly up on 2017.

Christmas gifting across the Group is significant and sales for the business will skew two thirds to the second half of the year as a consequence. As orders are gained ahead of time, gifting provides a greater degree of visibility. The order book for our own brands at the half year point totaled £8.2 million, compared to £7.2 million at 30 June 2017 on a comparable basis.

Total comparable revenue grew by 0.4% from £18.3 million in H1 2017 to £18.4 million in H1 2018.

### **Product Gross Margin**

Gross margin was 36.5% for the half year compared to 38.9% in H1 2017. Gross margin has reduced due to the margin mix in the half year to 30 June 2018 that now includes Retra brands which have lower gross margins than W7, and the increase in close-out sales in the first half of 2018 also at a lower gross margin than W7.

As the year continues, we expect the gross margin to rise in line with 2017 as the mix improves and we benefit from the strengthening of Sterling against 2017 average rates. We continue to receive a ratcheted discount mechanism from our key supplier in China to mitigate the cost effect of the fall in value of Sterling and we have moved production to new factories of equal quality to improve margin. The natural hedge we receive from dollar revenue will be improved in the second half of the year as we benefit from the sales made by the acquisition in the USA of Leeds Marketing.

Comparable interim gross margin decreased by 2.0% over H1 2017 to 36.5%.

### **Operating Expenses**

Total operating expenses increased by £3.1 million from H1 2017 to H1 2018. Excluding amortisation of intangibles, depreciation charges and exceptional items operating expenses increased by £1.8 million from H1 2017 to H1 2018, this increase was entirely from the addition for the half year to June 2018 of Retra operating expenses for the first time.

We remain a business with most operating expenses relatively fixed and evenly spread across the whole year. We continue to monitor and examine significant costs to ensure they are controlled and strive to reduce them, in addition the increased scale of the business now incorporating Retra has given the Group increased buying power.

Comparable operating expenses excluding amortisation of intangibles, depreciation charges and exceptional items remained the same in H1 2018 as H1 2017.

### **Profit Before Tax**

Group Profit Before Tax ("PBT") was £1.3 million compared to £2.9 million for H1 2017. Adding back amortisation of intangibles, depreciation charges, exceptional items and finance costs would adjust PBT to £2.8 million for H1 2018, compared to £3.1 million for H1 2017 on the same basis. The decrease in PBT was due to new hires in the second half of 2017 in the Retra business and the renting of a second warehouse site at the start of 2018 for the Christmas gifting business that will see overall cost and efficiency savings in the second half of 2018.

Like for like Group PBT, adding back amortisation of intangibles, depreciation charges, exceptional items and finance costs, was £3.4 million, an increase of £0.3 million on H1 2017.

Comparable PBT excluding amortisation of intangibles, depreciation charges, exceptional items and finance costs decreased by £0.3 million from H1 2017 to H1 2018.

## **Exceptional Items**

Certain expenses have been treated as exceptional as they were one off legal and professional fees incurred in relation to the acquisition of Retra in November 2017 and the admission of the Group's shares to trading on AIM in November 2016. In the six months ended 30 June 2018 £0.05 million of expenses had been treated as exceptional (30 June 2017: £0.01 million).

## **Tax**

The current tax rate for the Group for H1 2018 was 19%. We expect the tax rate on adjusted profits to be approximately 19% for the full year 2018 and then falling in line with the UK Government measures to reduce corporation tax to 17% by 2020.

## **Earnings Per Share**

The statutory interim basic and diluted earnings per share was 1.36p in H1 2018 (3.59p in H1 2017). The adjusted interim earnings per share before exceptional items and amortisation costs was 2.92p in H1 2018 (3.82p in H1 2017).

## **EMI Shares**

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 no dilutive impact on earnings per share in the period. No further awards have been granted since 29 June 2017.

## **Cash Flow and Cash Position**

Net cash flow generated from operations was £4 million compared to £0.04 million in H1 2017. The Group's net cash balance increased by £2.1 million to £4.6 million as at 30 June 2018 (30 June 2017 £2.5 million). The cash generated was mainly used to pay corporation tax in the half year and reduce debt taken on through the acquisition of Retra. Management continue to monitor trade receivables and stock levels as the business continues to grow.

We expect capital expenditure requirements of the Group to remain modest. In H1 2018 £0.23 million (2017: £0.09 million) was spent on new computer software and equipment, and warehouse improvements and plant for an additional warehouse unit close to the existing Retra location and other general fixtures and plant upgrades. Also included in the financial statements is capital expenditure of £0.09 million for sales display units that have been reclassified in the balance sheet for H1 2018.

## **Balance Sheet**

The Group's balance sheet remains in a very healthy position being net debt free. Net assets totaled £39.5 million at 30 June 2018, with the majority made up of liquid assets of stock, trade receivables and cash. Included in the balance sheet is £7.5 million of goodwill and £9.5 million of intangible fixed assets arising from the acquisition accounting adopted to reflect the purchase of Retra in November 2017 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.

### **Dividend**

The Board is pleased to have declared an interim dividend of 1.5p per share, to be paid on 16 November 2018 to shareholders on the register at close of business on 2 November 2018. The ordinary shares will be marked ex-dividend on 1 November 2018.

**Neil Rodol**  
**Chief Financial Officer**  
17 September 2018

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the period ended 30 June 2018**

	Notes	<i>Unaudited</i> 6 Months ended 30 June 2018 £'000	<i>Unaudited</i> 6 Months ended 30 June 2017 £'000	<i>Audited</i> Year ended 31 December 2017 £'000
<b>Revenue</b>		18,402	13,271	32,549
Cost of sales		(11,683)	(8,104)	(19,911)
<b>Gross profit</b>		<b>6,719</b>	<b>5,167</b>	<b>12,638</b>
Administrative expenses	4	(5,345)	(2,287)	(5,744)
<b>Profit from operations</b>		<b>1,374</b>	<b>2,880</b>	<b>6,894</b>
<b>Analysed as:</b>				
Adjusted profit from operations <sup>1</sup>		2,843	3,076	7,933
Depreciation		(253)	(40)	(184)
Amortisation		(1,163)	(144)	(469)
Exceptional items	4	(53)	(12)	(386)
Finance expenses	5	(51)	-	(37)
<b>Profit before tax</b>	4	<b>1,323</b>	<b>2,880</b>	<b>6,857</b>
Tax expense	6	(280)	(566)	(1,384)
<b>Profit for the period attributable to equity holders of the parent company</b>		<b>1,043</b>	<b>2,314</b>	<b>5,473</b>
Other comprehensive income (net of tax):		-	-	-
<b>Total comprehensive income for the period attributable to equity holders of the parent company</b>		<b>1,043</b>	<b>2,314</b>	<b>5,473</b>
Earnings per share – Basic and diluted	7	1.36	3.59	8.34

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

**WARPAINT LONDON PLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2018**

	Notes	<i>Unaudited</i> As at 30 June 2018 £'000	<i>Unaudited</i> As at 30 June 2017 £'000	<i>Audited</i> As at 31 December 2017 (restated) £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	3	7,532	513	7,532
Intangible assets		9,516	1,294	10,653
Property, plant and equipment		1,475	283	1,497
		<b>18,523</b>	<b>2,090</b>	<b>19,682</b>
<b>Current assets</b>				
Inventories		12,527	9,319	11,531
Trade and other receivables		11,782	7,611	13,676
Cash and cash equivalents		5,546	2,523	3,369
		<b>29,855</b>	<b>19,453</b>	<b>28,576</b>
<b>Total assets</b>		<b>48,378</b>	<b>21,543</b>	<b>48,258</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		5,780	4,645	3,537
Loans and borrowings		257	-	582
Corporation tax payable		364	1,013	939
Derivative financial instruments		-	-	3
		<b>6,401</b>	<b>5,658</b>	<b>5,061</b>
<b>Non-current liabilities</b>				
Loans and borrowings		682	-	814
Deferred tax liabilities		1,794	261	1,959
		<b>2,476</b>	<b>261</b>	<b>2,773</b>
<b>Total liabilities</b>		<b>8,877</b>	<b>5,919</b>	<b>7,834</b>
<b>NET ASSETS</b>		<b>39,501</b>	<b>15,624</b>	<b>40,424</b>
<b>EQUITY</b>				
Share capital		19,187	16,135	19,187
Share premium		19,359	1,806	19,359
Merger reserve		(16,100)	(17,995)	(16,100)
Other reserves		74	-	45
Retained earnings		16,981	15,678	17,933
<b>Total equity attributable to shareholders</b>		<b>39,501</b>	<b>15,624</b>	<b>40,424</b>

**WARPAINT LONDON PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
For the period ended 30 June 2017

	Notes	<i>Unaudited</i> 6 Months ended 30 June 2018 £'000	<i>Unaudited</i> 6 Months ended 30 June 2017 £'000	<i>Audited</i> Year ended 31 December 2017 £'000
Profit before tax for the period		1,323	2,880	6,857
<b>Adjusted by:</b>				
Depreciation of property, plant and equipment		253	40	184
Amortisation of intangible assets		1,163	144	469
Net interest expense		51	-	37
Loss on disposal of property, plant and equipment and intangible assets		-	-	6
Share based payment		29	-	45
Movement in inventories		(996)	(1,650)	224
Movement in trade and other receivables		1,894	(2,002)	869
Movement in trade and other payables		248	628	(1,356)
Movement in derivative financial instruments		(3)	-	-
<b>Cash inflow generated from operations</b>		<b>3,962</b>	<b>40</b>	<b>7,335</b>
Income tax paid		(1,020)	(900)	(2,077)
Interest paid	5	(51)	-	(37)
<b>Cash flows from operating activities</b>		<b>2,891</b>	<b>(860)</b>	<b>5,221</b>
Purchase of property, plant and equipment		(231)	(86)	(555)
Purchase of intangible assets		(26)	(34)	(52)
Bank balance acquired		-	-	242
Acquisition of business		-	-	(16,200)
Proceeds from sale of property, plant and equipment		-	-	33
Sale of investments		-	-	-
<b>Cash flows used in investing activities</b>		<b>(257)</b>	<b>(120)</b>	<b>(16,532)</b>
Proceeds from new share capital subscribed		-	-	21,199
Share issue costs		-	-	(857)
Reduction in borrowings		(457)	-	(7,293)
Dividends		-	-	(1,872)
<b>Cash flows (used in)/from financing activities</b>		<b>(457)</b>	<b>-</b>	<b>11,177</b>
Net change in cash and cash equivalents		2,177	(980)	(134)
Cash and cash equivalents at beginning of period		3,369	3,503	3,503
<b>Cash and cash equivalents at end of period</b>		<b>5,546</b>	<b>2,523</b>	<b>3,369</b>
<b>Cash and cash equivalents consists of:</b>				
Cash and cash equivalents		5,546	2,523	3,369
		<b>5,546</b>	<b>2,523</b>	<b>3,369</b>



**WARPAINT LONDON PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the period ended 30 June 2018**

	Share capital £'000	Share Premium £'000	Merger reserve £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2017	16,135	1,806	(17,995)	-	14,332	14,278
Profit for the period	-	-	-	-	2,314	2,314
Dividends	-	-	-	-	(968)	(968)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Equity as at 30 June 2017</b>	<b>16,135</b>	<b>1,806</b>	<b>(17,995)</b>	<b>-</b>	<b>15,678</b>	<b>15,624</b>
Profit for the period	-	-	-	-	3,159	3,159
Shares issued during the year	2,789	18,410	-	-	-	21,199
Shares issue for Retra Holdings	263	-	1,895	-	-	2,158
Share issue costs	-	(857)	-	-	-	(857)
Movement in other reserves	-	-	-	45	-	45
Dividends	-	-	-	-	(904)	(904)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Equity as at 31 December 2017</b>	<b>19,187</b>	<b>19,359</b>	<b>(16,100)</b>	<b>45</b>	<b>17,933</b>	<b>40,424</b>
Profit for the period	-	-	-	-	1,043	1,043
Movement in other reserves	-	-	-	29	-	29
Dividends	-	-	-	-	(1,995)	(1,995)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Equity as at 30 June 2018</b>	<b>19,187</b>	<b>19,359</b>	<b>(16,100)</b>	<b>74</b>	<b>16,981</b>	<b>39,501</b>

## Notes to the Financial Statements

### 1. Basis of preparation

The consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), as adopted by the European Union.

The accounts have been prepared in accordance with accounting policies that are consistent with the Group's Annual Report and Accounts for the period ended 31 December 2017 and that are expected to be applied in the Group's Annual Report and Accounts for the period ended 31 December 2018. There are new or revised standards that apply to the period beginning 1 January 2018 but they do not have a material effect on the financial information for the period ended 30 June 2018.

The comparative financial information for the period ended 31 December 2017 in this interim report does not constitute statutory accounts for that period under 435 of the Companies Act 2006.

Statutory accounts for the period ended 31 December 2017 have been delivered to the Registrar of Companies.

The auditors' report on the accounts for 31 December 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

### 2. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018.

There was no material effect of initially applying IFRS 15 or IFRS 9.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

All of the Group's revenue is within the scope of IFRS 15, but no material changes to the timing of revenue recognition are required. Under IFRS 15 revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the Group's case, this is on delivery of the products to the customer.

#### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, and the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

## 2. Changes in significant accounting policies (continued)

IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as:

- amortised cost;
- fair value through other comprehensive income (FVTOCI) – debt investment;
- FVTOCI – equity investment; or
- Fair value through profit or loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivates embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets are subject to new rules regarding provisions for impairment, however as the Group has minimal financial assets (other than trade receivables), and a history of minimal impairments against these assets, the impact on transition is not material.

The group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses.

### IFRS 16 Leases

IFRS 16 represents new requirements for the recognition of operating leases, replacing IAS 17 Leases, and is applicable for annual reporting periods beginning on or after 1 January 2019. 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.

## 3. Goodwill

During the six months ended 30 June 2018, the consideration for the acquisition of Retra Holdings Limited was finalised. The previously disclosed purchase price of £18.36 million was reduced by £450,000 resulting in a reduction in the goodwill figure arising on acquisition from £7,469,000 to £7,019,000. The comparative figures at 31 December 2017 have been adjusted retrospectively.

## 4. Profit from operations

Profit from operations is arrived at after charging/ (crediting):

	<i>Unaudited</i> 6 Months ended 30 June 2018	<i>Unaudited</i> 6 Months ended 30 June 2017	<i>Audited</i> Year ended 31 December 2017
	£'000	£'000	£'000
Depreciation of property, plant and equipment	253	40	184
Amortisation of intangible assets	1,163	144	469
Loss on disposal of property, plant and equipment and intangible assets	-	-	6
Operating leases	301	180	373
Exchange differences	(106)	84	71
Exceptional acquisition related costs	53	12	386

Exceptional costs relate to legal and professional fees incurred when completing acquisitions.

**5. Finance expenses**

	<i>Unaudited</i> 6 Months ended 30 June 2018	<i>Unaudited</i> 6 Months ended 30 June 2017	<i>Audited</i> Year ended 31 December 2017
	£'000	£'000	£'000
Interest on loans	13	-	15
HP interest	30	-	5
Other interest	8	-	17
<b>Finance expenses</b>	<b>51</b>	<b>-</b>	<b>37</b>

**6. Tax expenses**

	<i>Unaudited</i> 6 Months ended 30 June 2018	<i>Unaudited</i> 6 Months ended 30 June 2017	<i>Audited</i> Year ended 31 December 2017
	£'000	£'000	£'000
<b>Current tax expense</b>			
Current income tax charge	445	583	1,473
Adjustment in respect of previous periods	-	-	(30)
	<b>445</b>	<b>583</b>	<b>1,443</b>
<b>Deferred tax expense</b>			
Relating to original and reversal of temporary differences	(165)	(17)	(59)
<b>Total tax in income statement</b>	<b>280</b>	<b>566</b>	<b>1,384</b>

**7. Earnings per share**

Profit for the period used in the calculation of the basic and diluted earnings per share:

	<i>Unaudited</i> 6 Months ended 30 June 2018	<i>Unaudited</i> 6 Months ended 30 June 2017	<i>Audited</i> Year ended 31 December 2017
	£'000	£'000	£'000
Profit after tax for the period	<b>1,043</b>	<b>2,314</b>	5,473

The weighted average number of shares for the purposes of diluted earnings per share reconciles to the weighted average number of shares used in the calculation of basic earnings per share as follows:

	<i>Unaudited</i> 6 Months ended 30 June 2018	<i>Unaudited</i> 6 Months ended 30 June 2017	<i>Audited</i> Year ended 31 December 2017
<b>Weighted average number of shares</b>			
Issued ordinary shares at 1 January	76,749,125	64,538,600	59,057,239
Shares issued in respect of share placing	-	-	6,518,419



Weighted average number of shares at end of the period	76,749,125	64,538,600	65,575,958
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The 255,051 share options in issue at 30 June 2018 have 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.

Earnings per share (pence) – Basic and Diluted	1.36	3.59	8.34
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## 8. Events after the Reporting Period

On 2 August 2018, the Company completed the acquisition of its USA distributor, Marvin Leeds Marketing Services Inc ("Leeds Marketing"). Leeds Marketing, based in New York, currently derives approximately two thirds of its revenue through the distribution of the Company's W7 products, with the remainder being through the sale of other branded cosmetics. Recently Leeds Marketing has opened new accounts for W7 and other Warpaint brands with a number of retailers in the USA. The USA is the world's largest colour cosmetics market by value and the Company believes the Acquisition will allow it to have greater control over its North American sales activities, enabling it to achieve its declared strategy of international expansion, particularly in the United States. In addition, the Acquisition is expected to open up further opportunities to expand sales in Central and South America, where customers prefer to be served by a USA-based entity. Under the terms of the Acquisition the consideration will comprise US\$2.16 million in cash, subject to an adjustment depending on the net assets acquired which are expected to be US\$0.8 million. The Company has paid US\$2 million in cash with two further payments of US\$80,000 due on 30 September 2018 and 31 December 2018, subject to the net asset adjustment.

## 9. Availability of Interim Results

Copies of this announcement are available on the Investors section of the Company's website, [www.warpaintlondonplc.com](http://www.warpaintlondonplc.com).

## Officers and Professional Advisers

### Directors

C Garston	Chairman
S Bazini	Joint Chief Executive Officer
E Macleod	Joint Chief Executive Officer
N Rodol	Chief Financial Officer
S Craig	General Counsel
K Sadler	Non-Executive Director
P Hagon	Non-Executive Director

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### Company Secretary

S Craig

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### Registered office

Units B&C  
Orbital Forty Six  
The Ridgeway Trading Estate  
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### Company number

10261717

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### Nominated Adviser & Broker

Stockdale Securities Limited  
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### Auditors

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**WARPAINT LONDON PLC**

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