WARPAINT LONDON PLC
ANNUAL REPORT 2021

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Mission Statement

"Warpaint's mission is to provide access to an extensive range of high quality cosmetics at an affordable price."

We strive to fulfil our mission by:
- Utilising marketing and advertising initiatives that are efficient
- 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 high quality ingredients
- We manufacture products that are safe and kind to the user
- We follow and adhere strictly to all relevant regulatory compliance in all territories where we sell our products

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

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

Headline Results

Headline results for the year ended 31 December 2021
Warpaint London plc ("Warpaint", the "Company" or the "Group")

Warpaint sells branded cosmetics under the lead brand names of W7 and Technic. W7 is sold in the UK primarily to retailers and internationally to local distributors or retail chains. The Technic brand is sold in the UK and continental Europe with a significant focus on the gifting market, principally for high street retailers and supermarkets. In addition, Warpaint supplies own brand white label cosmetics produced for several major high street retailers. The Group also sells cosmetics using its other brand names of Man'stuff, Body Collection, Very Vegan, and Chit Chat.

	Statutory Results	
	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Revenue	**£50.0m**	£40.3m
Profit / (loss) from operations	**£3.8m**	£(0.9)m
Profit margin from operations	**7.6%**	na
Profit before tax ("PBT") / (Loss before tax)	**£3.7m**	£(1.1)m
Earnings per share ("EPS") / (Loss per share)	**3.7p**	(1.3)p
Cash and cash equivalents	**£4.1m**	£4.9m

	Adjusted Statutory Results	
	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Revenue	**£50.0m**	£40.3m
Adjusted profit from operations	**£7.0m***	£2.5m*
Adjusted profit margin from operations	**13.9%***	6.2%*
Adjusted PBT	**£6.9m***	£2.3m*
Adjusted EPS	**7.8p***	3.1p*
Cash and cash equivalents	**£4.1m**	£4.9m

Adjusted numbers are closer to the underlying cash flow performance of the business which is regularly monitored and measured by management, the adjustments made to the statutory numbers are as follows:

	2021	2020
Statutory profit / (loss) from operations	**£3.8m**	£(0.9)m
Exceptional items	**£0.6m**	£0.3m
Amortisation	**£2.4m**	£2.4m
Share based payments	**£0.2m**	£0.7m
***Adjusted profit from operations**	**£7.0m**	£2.5m

***Adjusted profit margin from operations**	**£7.0m / £50.0m = 13.9%**	£2.5m / £40.3m = 6.2%

Statutory PBT / (LBT)	**£3.7m**	£(1.1)m
Exceptional items	**£0.6m**	£0.3m
Amortisation	**£2.4m**	£2.4m
Share based payments	**£0.2m**	£0.7
***Adjusted PBT**	**£6.9m**	£2.3m

Statutory profit / (loss) attributable to equity holders	**£2.8m**	£(1.0)m
Exceptional items	**£0.6m**	£0.3m
Amortisation	**£2.4m**	£2.4m
Share based payments	**£0.2m**	£0.7m
Adjusted profit attributable to equity holders	**£6.0m**	£2.4m
Weighted number of ordinary shares	**76,751,187**	76,749,125
***Adjusted EPS**	**7.8p**	3.1p

Exceptional items include £0.03 million of staff restructuring and voluntary redundancy costs (2020: £0.24 million), £0.19 million of non-recurring legal costs (2020: £0.08 million), and a £0.37 million provision for content use and associated legal fees (2020: £nil).


SOCIALITE
INDULGENT MULTI-TEXTURED PRESSED PIGMENT PALETTE
LIFE'S A PEACH
THE SWEETEST OF PEACHES - EYE COLOUR PALETTE
ROMANCED
NEUTRALS IN LOVE - EYE COLOUR PALETTE
DELICIOUS
NATURAL & BERRY - PRESSED PIGMENT PALETTE
VIOLET LIGHTS
NEUTRALS GONE WILD - EYE COLOUR PALETTE
DUSK TILL DAWN
ULTRA VIOLET NEUTRALS - PRESSED PIGMENT PALETTE
SEDUCED
PROVOCATIVE PRESSED PIGMENT PALETTE
ENCHANTED
BRILLIANCE IN BLOOM - PRESSED PIGMENT PALETTE

Financial Highlights

- Strong growth in sales, profitability and cash generation during the year reflecting the focus on growing sales of the Group's branded products
- Group sales increased by 24.1% to £50.0 million in 2021 (2020: £40.3 million)
  - UK revenue increased by 20% to £25.3 million (2020: £21.1 million)
  - International revenue increased by 29% to £24.7 million (2020: £19.1 million)
- Gross profit margin increased to 33.8% (2020: 31.1%), against the backdrop of supply side price inflation and significant increases in freight costs
- EBITDA of £7.6 million (2020: £2.8 million)
- Adjusted profit from operations of £7.0* million (2020: £2.5* million). Statutory profit from operations of £3.8 million (2020 loss of £0.9 million)
- Reported profit before tax of £3.7 million (2020 loss of £1.1 million)
- Adjusted earnings per share of 7.8p* (2020: 3.1p*)
- Cash of £4.1 million at year end 2021 (2020: £4.9 million) after investment in additional inventory. Inventory at 31 December 2021 of £18.1 million (31 December 2020 £14.4 million)
- The Group was at 31 December 2021, and still is, debt free with the remaining loans and hire purchase contracts totalling £0.3 million having been repaid in full in April 2021
- Final dividend recommended of 3.5 pence per share (2020: 3.0 pence per share), bringing the total dividend for the year to 6.0 pence per share (2020: 5.8 pence per share, including a 1.3 pence special dividend)

Operational Highlights

- Further expansion in the number of Tesco stores stocking the Group's products and the stocking of additional W7 product lines. W7 branded products now sold in over 1,400 Tesco stores in the UK
- Further product expansion in the US, including W7 products now being stocked in over 1,200 Five Below stores. New sales team in place in the USA to drive growth in the largest colour cosmetics market in the world
- Online sales continue to accelerate, with an increase of 159% in Group e-commerce sales in 2021 to account for 2.7% of Group sales (2020: 1.3% of Group sales)
- Further expansion of online sales presence with the launch in China of official W7 brand stores owned by the Group on Taobao Mall (Tmall), the most visited B2C online retail platform in China and Xiaohongshu (Red), one of China's foremost social media, fashion and luxury shopping platforms. We now have 15 online distributors in China
- The Group's expansion strategy continues with active discussions being held with additional major retailers in the UK and internationally

Post-Period End Highlights

- Successful launch in Boots of 45 W7 products in an initial 80 stores in February 2022
- Record trading experienced in the first quarter of 2022 – Group sales for the first three months of 2022 approximately 60% ahead of the same period in 2021, with sales increases seen across all the Group brands
- Gross margin continued to improve in the first quarter of 2022 versus both Q1 2021 and the full year 2021
- Six new accounts opened in the USA, including CVS, where a significant Christmas 2022 order has also been received

*Adjusted numbers are closer to the underlying cash flow performance of the business which is regularly monitored and measured by management, the adjustments made to the statutory numbers are set out in the table on page 5.


Clive Garston

Chairman's Statement

Warpaint entered the Covid-19 pandemic in 2020 in robust health, with a strong balance sheet and an agile management team capable of dealing with the challenges presented. As the worst effects of the pandemic receded in 2021, with the ending of lockdowns in most parts of the world, the Group has emerged in an even stronger and more focused position.

In 2021 we enjoyed a return to growth, with sales and profits exceeding those achieved in 2019, the last full period before the pandemic struck. During the year we focused on increasing our presence in larger retailers globally, through expanding existing relationships and developing new ones. This larger footprint has provided more stability and visibility for the Group, and coupled with our growing online presence, provides a strong platform for the future.

Trading has continued to improve in the first quarter of 2022, with the Group enjoying record quarterly sales and profits. We expect demand to remain at a higher level than pre pandemic and for sales to continue to grow, despite inflationary pressures and the increase in commodity prices exacerbated by the dreadful events taking place in the Ukraine. The Group has no suppliers in either Russia or Ukraine, and no significant historic sales to either country.

Results

2021 was a year of improvement in financial performance for the Group as the worst of the coronavirus pandemic receded and growth resumed. This was achieved in a time of unprecedented increases in freight cost as well as the effect of the pandemic.

Adjusted profit from operations was £7.0 million (2020: £2.5 million) on revenue of £50.0 million (2020: £40.3 million) with basic earnings per share of 3.7p (2020: (1.3)p) and adjusted earnings per share of 7.8p (2020: 3.1p). Adjusted numbers exclude exceptional costs (staff restructuring and voluntary redundancy costs, certain non-recurring legal costs, stock relocation costs and a provision for content use and associated legal fees), amortisation in relation to acquisitions and share based payments.

During the latter part of 2021, the Group increased inventory levels to ensure anticipated demand in the first quarter of 2022 could be fulfilled, with inventories at 31 December 2021 increasing to £18.1 million (31 December 2020: £14.4 million). The balance sheet remains strong, with cash at 31 December 2021 of £4.1 million (31 December 2020: £4.9 million), and the Group is now debt free with the remaining loans and hire purchase contracts totalling £0.3 million having been repaid in full in April 2021.

Dividend

In accordance with the Group's policy to continue to pay appropriate dividends, the board is pleased to recommend an increased final dividend of 3.5 pence per share which, if approved by shareholders at the AGM, will be paid on 5 July 2022 to shareholders on the register at 17 June 2022. The shares will go ex-dividend on 16 June 2022.

Board and People

The pandemic dramatically impacted the personal and working lives of everyone. At Warpaint we quickly made the required changes in 2020 to working practices and continued in 2021 to adapt and modify these as appropriate. I am delighted with the way in which everyone has met these challenges and I would like to offer my thanks in particular to the Group's employees and my fellow board members for their dedication, flexibility and exceptional efforts.

On 3 August 2021 we were pleased to announce the appointment of John Collier from 1 September 2021 as an independent non-executive director of the Company. John is a Canadian national, based in New York, USA, who has spent nearly 30 years in the consumer goods industry, primarily at Revlon, the multinational cosmetics, skin care, fragrance, and personal care company. He brings with him a wealth of experience in the cosmetics sector that is proving particularly beneficial as we seek to grow our North American business and I welcome him to the board.

Annual General Meeting

The Company's annual general meeting will be held at the Company's offices at Units B&C, Orbital Forty Six, The Ridgeway Trading Estate, Iver, Bucks, SL0 9HW on 27 June 2022 at 10 a.m. and after the restrictions caused by the Covid-19 pandemic over the last two years we will be delighted to welcome those shareholders who are able to attend in person.

Summary and Outlook

I am pleased that despite much of the world having some level of lockdown during 2021 and the continued enforced temporary closure of a number of the Group's customers' retail outlets, sales and profits recovered in 2021 to exceed the 2019 pre-pandemic level. The Warpaint team has delivered tremendous results and given this performance the board is pleased to be recommending the payment of an increased dividend.

In the first quarter of 2022 we have enjoyed further profitable growth as we focus on supplying additional retailers and growing sales through our existing customers, taking more warehouse space and adding further stores. In the UK the launch of our W7 products in Boots in February 2022 is a particular highlight and we anticipate adding further large store groups to our customer base in due course.

The global cosmetics market is increasingly seeing customers transferring to more value orientated brands, such as those produced by the Group, and I believe we are very well placed with our high quality focused offering to capture further market share.

I am optimistic that the very encouraging trends we have seen in 2021 and into 2022 will continue, and that we have the right offering and strategy in place to continue to deliver profitable future growth.

Clive Garston
Chairman
25 April 2022


Sam Bazini

Chief Executive's Statement

2021 was a period of strong growth for the Group as most of Warpaint's markets emerged from the worst of the Covid-19 pandemic. Group sales increased by 24% in 2021 to £50.0 million, to surpass the level achieved in 2019, before the pandemic struck. These sales were achieved at an increased gross margin of 33.8% (2020: 31.1%) despite cost pressures, particularly regarding freight, and resulted in a return to a reported profit before tax of £3.7 million (2020: loss of £1.1 million).

Our strategy is to produce a wide range of high quality cosmetics at an affordable price. We aim to increase sales to our existing customers and to win new customers, particularly those retailers with significant sales footprints, both in the UK and internationally. We are also focusing strongly on growing our online sales. This has provided more stability and visibility for the Group and a strong platform for continued growth.

The Group has continued to reduce the focus on its close-out business and in 2021 close-out sales accounted for 9% of revenue (2020: 12%).

W7

The Group's lead brand remains W7, with sales in 2021 accounting for 52% of total Group revenue (2020: 45%). Overall W7 sales increased by 42% in 2021 to £25.9 million compared to £18.2 million in 2020 and showed an increase of 15% over 2019, the last period not impacted by the pandemic.

In the UK, W7 revenues were up 41% in 2021 at £12.0 million compared to £8.5 million in 2020. The UK is the most important market for W7, having grown in importance over the last two years to account for 46% of W7 sales in 2021, compared to 35% in 2019.

The growth in W7 UK sales has been assisted by the roll out into Tesco, together with a growth in sales from the Group's other larger customers in the UK. In February 2020 the Group's W7 products were in 56 Tesco stores, today they are in over 1,400 across the various store formats, with planned further expansion of the range of W7 and accessory products being stocked by Tesco, both in stores and online. W7 sales in the UK received a further boost post period end with Boots starting to stock a range of approximately 45 W7 products in an initial 80 stores from February 2022. We anticipate growth in the presence with Boots in due course.

Internationally W7 sales were up on 2020 in all of the Group's reported regions. In Europe sales increased by 25% compared to 2020, in the US sales increased by 83% compared to 2020, and in the rest of the world sales increased by 92% compared to 2020.

We believe that W7 has a compelling brand proposition and will continue to benefit from consumers wanting a high quality, but excellent value for money product.

Technic

The Technic brands comprise Technic, Body Collection and Man'stuff. Since the acquisition of the Technic brands, through the acquisition of Retra Holdings in November 2017, we have focused on increasing the sales of the all year round cosmetics sold under the brands. The proportion of gifting sales for Retra reduced to 37% in 2021 from 47% in 2020, with single products sold under the Technic brands accounting for 63% of sales in 2021, with an additional shift to all year round gifting products from specific Christmas focused gifting product.

Sales of branded Technic product in 2021 was 37% of total Group revenue (2020: 36%). Overall Technic sales grew by 28% in 2021 to £18.5 million, compared to £14.5 million in 2020 and £16.7 million in 2019.

In 2021, UK revenues were 48% of Technic's total sales and they increased by 11% over the year returning to a similar level seen in 2019, aided by sales of Technic and Body Collection branded products in wilko, which continue to grow.

Sales in Europe, a market almost as large for Technic as the UK, accounted for 46% of Technic's sales and increased by 16% compared to 2020 and were 6% higher than the level achieved in 2019.

Sales for the Technic brands outside of the UK and Europe accounted for 6% of Technics sales (2020 5%). In the USA, sales decreased by 20% compared to 2020, and in the rest of the world sales increased by 133% compared to 2020, albeit the sales were small in these regions in the context of the Group as a whole being 2% of Group revenues.

The Retra business also produces and sells own brand white label cosmetics for several major high street retailers, with such sales being 2% of Group revenue (2020: 7%). We continue to assess private label opportunities on a case by case basis, based on the return they can deliver and they are not a strategic focus for the Group.

As with W7 we saw a strong recovery in sales for Technic in the UK, Europe and the rest of the world as the Covid-19 lockdowns were ended during 2021, with growth continuing in the first quarter of 2022.

Close-out

Whilst the Group's close-out division continues to provide a good and profitable source of intelligence in the colour cosmetics market, taking advantage of profitable close-out opportunities as they become available, the strategy remains to reduce close-out sales. The close-out division was therefore a smaller proportion of Group sales in 2021, representing 9% of the overall revenue of the Group, down from 12% in 2020 and 16% in 2019.

New Product Development

New product development continues to be core to the Group's proposition to provide new products that are on trend, fast to market and that meet the consumer's quickly changing needs.

In 2021 our New Product Development Team continued to develop a strong pipeline of new products, focused on the demands of our customers.

Our new product development strategy continues to utilise a variety of manufacturing partners, predominantly in China and Europe, that provide high quality products quickly, at very competitive prices, and meet our legal and ethical compliance requirements, together with ensuring continuity of delivery. This process is supported by the Group's Hong Kong based subsidiary sourcing office and its China subsidiary (Jinhua Badgequo Cosmetics Trading Company Ltd), with local employees able to explore new factories and oversee quality control and ethical sourcing.

The Group is very focused on the environmental impact of its products and all plastics have been removed from the outer packaging of its gifting and practically all of its all year-round products, and the Group has virtually eliminated the use of single use packaging in its products completely. The Group's product packaging therefore uses paper and cardboard wherever practicable, which enables the Group, the wholesaler and end user to recycle the waste effectively. In terms of the Group's product casings, the use of plastic is sometimes practically unavoidable, but recyclable packaging is used wherever possible.

All new W7 brand products are being manufactured without parabens and the Company is reformulating existing products where feasible. The Group is on track to be paraben free for all products in the next 18 to 24 months. No heavy metals such as TBTO (preservative) and other ingredients of concern are added to our products and all raw materials comply with the strict regulations applicable in the EU, USA, Canada and other markets in which we operate.

e-Commerce

During 2021 we continued to focus on driving online sales. Whilst direct online sales remain a modest proportion of the Group's overall sales at 2.7% (2020: 1.3% of Group sales), they have grown from £0.2 million in 2019 to £0.5 million in 2020 and to over £1.3 million in 2021, an increase of 159% from 2020 to 2021.

In addition to growing sales through the W7 and Technic brands' own bespoke e-commerce sites, the focus has continued on growing sales of our brands in the UK and the US on Amazon, which has helped further accelerate our online sales.

Further expansion of the Group's online sales presence was implemented in the second half of 2021 in China, with the launch of official W7 brand stores owned by the Group on Taobao Mall (Tmall), the most visited B2C online retail platform in China and Xiaohongshu (Red), one of China's foremost social media, fashion and luxury shopping platforms.

Marketing and PR

In 2021 we continued our focus on ensuring our marketing programmes were both fresh and innovative, focused on both customer loyalty and showcasing our products to new potential consumers, with a particular emphasis on social media. Our online loyalty programme, initiated in 2020, is also helping to retain customers and increase basket size.

Strategy

On an annual basis the board carries out a process of developing a three-year strategic plan for the business based on market data, experience and the Group's aims. This is targeted by year, measured monitored and reviewed as part of the board's on-going business throughout the year. The strategic plan has been updated for 2022, forming the basis of the Group's development through to 2024. The plan is designed to drive shareholder value and has defined targets for sales, EBITDA, earnings per share and cash generation with a particular emphasis on driving incremental EBITDA growth.

Chief Executive's Statement (continued)

The strategic plan comprises six key pillars:

- **Develop and build the Group's brands and provide new product development that meets changing trend and consumer needs**

The Group ensures that everybody within the business has crystal clarity of the positioning of the Group's portfolio of brands; that there is a clear brand hierarchy; non-core brands and products are eliminated; that close-out continues to reduce as a proportion of sales; and the Group delivers quality new product development and gifting sets that are on-trend and meets the consumers changing needs.

- **Develop and nurture the current core business**

A major objective of the Group is to continue to develop and grow the presence of the Warpaint brands beyond their existing customer base. There is still, however, significant potential to be realised and further distribution gains in the current customer base and the Group is committed to ensuring this potential is maximised. The Group is focused on ensuring there is a clarity of product offering to each customer segment and to supporting its customers with relevant new products; by using appropriate marketing and innovative merchandising solution to draw consumers into customer stores; and by cross selling the Group's brands and categories for example accessories, body mists, gifting and skin care where appropriate.

- **Grow Market Share in the UK**

The business continues to focus on increasing the presence of the Group's brands in channels that our consumers shop in, to increase accessibility and drive profitable market share growth. As a result of this strategy, the Group has successfully launched the W7 brand into Tesco, where distribution gains across all store formats are successfully being driven, into Boots, and the Technic and Body Collection brands into wilko. It continues to have active discussions with other major retailers who are currently in channels that the Group is yet to materially supply to and expanding the UK customer base is a key focus of management. This is particularly opportune as consumers and retailers across all sectors alike are increasingly looking to provide quality products to their customers at affordable prices.

- **Grow market share in the USA and China**

The USA and China continue to provide a major growth opportunity for the Group. In the USA, the Group is establishing agency channels and using employees to directly sell to retailers. A core product range for the USA has been established with minimum margin requirements; whilst targeted discussions are now underway to gain both gifting and all year around listings. In China the Group conducts business locally through its Chinese subsidiary company. We are also continuing to register products for sale in China in order to grow our total offering and increase sales. This has led to the development of relationships with distributors in the region who have the capability to drive sales of the W7 brand via a W7 storefront on on-line market places.

- **Develop the online/e-commerce strategy for brand development and profitable sales**

The Group aims to grow and maximise profitable sales across the Group's on-line sales channels. As well as continuing to sell on the businesses' own websites and developing its own consumer community, plans continue to be executed to develop sales across Amazon platforms. W7 stores have been launched in the UK, USA and Europe on Amazon and are fulfilled by Amazon. Further on-line sales platforms and geographies will be evaluated and, where profitable opportunities identified, launched over the course of the three year plan. The Group continues to develop and build its brands by utilising brand ambassadors, influencers and make-up artists to engage actively with its target audience. The Group wants to ensure that consumers are adequately inspired and educated on how the Group's products can be used to experiment and achieve different looks. Developing the social media strategy also directly impacts the Group's online sales strategy.

- **Develop and implement appropriate strategies that ensure Warpaint reduces its impact on the environment**

The Group recognises consumers', customers' and our own requirement to reduce our environmental impact. The business has already identified and implemented a number of initiatives to reduce our environmental footprint via reduced shipping and road mileage; removing plastics where possible from packaging and improving recyclability; removing parabens from ingredients; and ensuring all products are manufactured cruelty free. Further initiatives have been identified and targeted with the aim of being implemented across the course of the three year plan. Further information is contained within the ESG section of this report.

Brands

As previously announced, in 2020 we undertook a review of all our brands, removing from sale those small number of brands that were sub-scale and did not have a compelling market position. This exercise enabled the Group to concentrate on its core W7, Technic, Body Collection, Man'stuff, Chit Chat and Very Vegan brands during the year with an improved focus.

Customers & Geographies

The largest markets for sales of our Group brands are in the UK and Europe. In 2021 our top ten customers represented 57% of revenues (2020: 48%). Group sales are made in 43 countries (2020: 43).

UK

The UK accounted for 51% of Group sales in 2021 (2020: 53%), with UK sales increasing by 20% to £25.3 million (2020: £21.1 million), led by the growth in sales of our lead brand W7, which increased by 41%. Total Group sales in 2021 in the UK were also 12% higher than the level achieved in 2019, despite continued lockdowns in the UK for much of the first half of 2021.

The top ten UK Group customers accounted for 63% of UK sales in 2021 (2020: 63%). Particularly strong growth was seen during the year with, Tesco (up 445%), T K Maxx (up 39%) and wilko (up 44%).

Europe

Prior to the onset of the Covid-19 pandemic in March 2020, Continental Europe was for some time an area of excellent growth for the Group. Following significantly reduced demand caused by country wide lockdowns in 2020, the gradual opening up in 2021 boosted Group sales in Europe by 19% to £18.0 million compared to £15.1 million in the same period in 2020. Sales for the Group's brands into Europe are mainly to Denmark, Spain, France and Sweden.

USA

USA sales, in sterling terms, increased by 39% in 2021 to £3.0 million (2020: £2.1 million) and grew by 49% in US dollar terms. This equated to 6% of overall 2021 Group sales (2020: 5%). USA sales remain below the 2019 level as the focus continues to be to increase the sales of the Group's brands rather than locally sourced close-out. In the USA 89% of sales in 2021 were from the sale of the Group's brands (2020: 83%).

Following a successful trial with Five Below, W7 products are now being stocked in over 1,200 of their stores in the USA.

A good performance was also seen from the Group's other major customers in the USA, including Macys Backstage, Marshalls, and TJ Maxx. Going forward the focus is to continue to target the larger store groups and to focus on growing our US online sales via Amazon FBA. Six new accounts have been added in the US post period end, including with CVS, where a significant Christmas 2022 order has also been received.

Rest of the World

Sales in the rest of the world increased by 94% from £1.9 million in 2020 to £3.7 million in 2021, accounting for 7.3% of overall Group sales (2020: 4.7%), and were 31% higher in 2021 compared to the 2019 pre-pandemic level. In Australia, which is a key country for the Group in the rest of the world region, sales increased by 128% in 2021 to £2.4 million. Since the easing of the Covid-19 lockdowns in the rest of the world region we have seen a strong recovery and growth in sales of our brands.

Summary and Outlook

I am pleased with the strong performance in 2021, with a significant recovery across the Group, following a difficult 2020 for everyone and despite continuing Covid-19 lockdowns in many countries during 2021, particularly in the first half.

We have seen particularly strong growth in the UK, with sales increasing beyond the level achieved in 2019, aided by the growing sales of our W7 brand through Tesco and of our Technic and Body Collection brands through wilko. Additionally, the launch of W7 into Boots in February 2022 provides a further significant opportunity. We have also seen an improved performance globally and particularly in the US, aided by our successful roll out with Five Below.

Chief Executive's Statement (continued)

The improved profit and gross margin performance in 2021 is despite cost headwinds, particularly with regard to freight. Group container freight costs were £3 million higher in 2021 than they were in 2020. In recent months we have seen some reduction in freight costs, although they remain above historic levels, and with changes to our logistics, such as direct shipping of product from China to the USA, we anticipate this could have a further positive impact on Group margins going forward.

Warpaint is very well positioned to take advantage of the increasing trend for consumers to move to the type of high quality value orientated products offered by the Group. We have a robust supply chain and an increasing number of outlets selling our products. We are working in partnership with our existing retailers to grow sales further and are in active discussions with additional major retailers globally.

Trading in 2022 has started strongly with a record first quarter. Sales for the first three months of 2022 are approximately 60% ahead of the same period in 2021, with sales increases seen across all of the Group's brands at improved levels of gross margin. I am encouraged by the Group's prospects for the rest of the year and beyond as we seek to further increase our retailer penetration and online sales, together with looking to grow sales through our existing customer outlets.

I look forward to updating further on our progress later in the year and with significant opportunities for further growth I look forward to the future with confidence.

Sam Bazini
Chief Executive Officer
25 April 2022


WHO WILL YOU BE TODAY?
W7
WHO WILL YOU BE TODAY?
Lippy Chic!
ULTRA CREME LIPSTICK
TOO FABULOUS!
Olivia Buckland
#FOREVERYDAY POPCULTURE
WHO WILL YOU BE TODAY?
Party & Dazzle
Fun & Fruity
NAILED IT!
MEGA MATTE Lips
CREAMY • DURABLE • INTENSE COLOUR
HOT SHOT
HOT LIPS
IN THE SPOTLIGHT • WILD EYES PALETTE £6.50
ABSOLUTE Lashes
ABSOLUTELY ICONIC
STROKE OF GENIUS
MICROBLADE BROW PENCIL
Blade Like precision!
PRECISION BROWS
SOCIALITE
ENCHANTED
ROMANCED
DELICIOUS
Princess POTION
HOLLYWOOD
Bronze & Glow
Glow with the Stars
Banana Dreams
Matte Dreamer
PALETTES
HD High Definition
Legend Foundation
GENIUS FOUNDATION
SUPER SMART FEATHER LIGHT MAKE UP
PRESSED PIGMENTS OF YOUR IMAGINATION
FOUNDATION
CANDY BLUSH
SWEET CHEEKS BLUSHER!
SET IT UP!
FINISHING POWDER
Honolulu
Welcome back to Paradise!
MATTE BRONZER
BRONZED BEAUTY
CONCEALERS
COVER STICKS
PRIMER • FIXER SPRAY
BLUSHER
FACE POWDER
NAIL POLISH

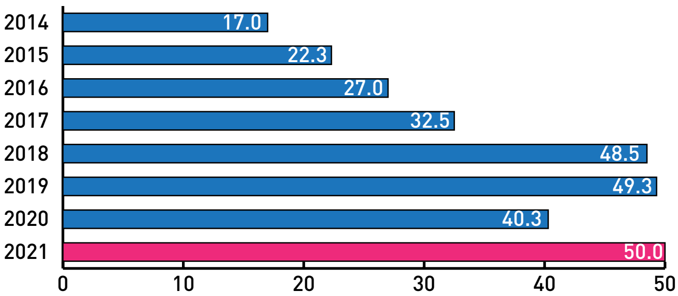
Neil Rodol

Financial Review

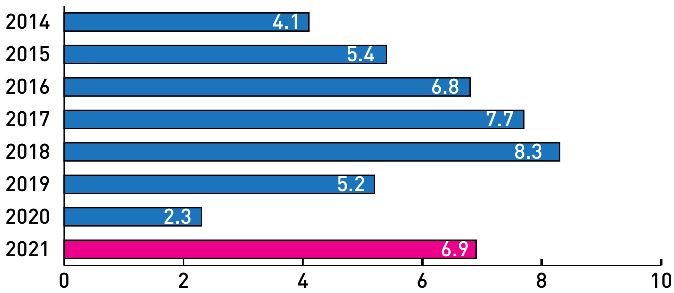
In 2020 results were adversely impacted by the Covid-19 pandemic, however 2021 has seen the Group achieve results ahead of 2020 and 2019 a year not affected by the pandemic. Group revenue increased in the year by 24% and adjusted profit before tax increased in the year by 200%. Most pleasing in the year was the improvement in gross margin by 2.7% to 33.8%, despite some increased costs in the supply chain, particularly with freight. The Group continues its strategy of building the W7 and Technic brands in the UK and internationally, and we remain focused on margin, being debt free, and generating cash.

The Group monitors its performance using a number of key performance indicators which are agreed and monitored by the board.

Revenue (£m)
2021: £50.0 million +24%



Adjusted profit before tax* (£m)
2021: £6.9 million +200%



* Adjusted numbers are closer to the underlying cash flow performance of the business which is regularly monitored and measured by management, the adjustments made to the statutory profit before tax are as follows:

	2021	2020
Statutory PBT / (LBT)	**£3.7m**	**£(1.1)m**
Exceptional items	£0.6m	£0.3m
Amortisation	£2.4m	£2.4m
Share based payments	£0.2m	£0.7m
***Adjusted PBT**	**£6.9m**	**£2.3m**

Exceptional items include £0.03 million of staff restructuring and voluntary redundancy costs (2020: £0.24 million), and £0.19 million of non-recurring legal costs (2020: £0.08 million), and a £0.37 million provision for content use and associated legal fees (2020: £nil).

Headline results, shown below, represent the performance comparisons between the consolidated statements of income for the years ended 31 December 2020 and 31 December 2021.

Revenue

Group revenue for the year increased by 24.1% from £40.3 million in 2020 to £50.0 million in 2021.

Company branded sales were £44.4 million in the year (2020: £32.8 million). Our W7 brand had sales in the year of £25.9 million (2020: £18.2 million). Our Technic brand contributed sales of £18.5 million in the year (2020: £14.5 million).

Our Retra subsidiary business had sales of retailer own brand white label cosmetics of £1.1 million in the year (2020: £2.6 million). The white label business is traditionally cost competitive and Retra chooses which projects to undertake based on commercial viability, and in particular margin.

The close-out business revenue reduced by 8.4% from £4.9 million in 2020 to £4.5 million in 2021 as the Group, in line with its strategy, continued to reduce its focus on close-out opportunities.

In the UK sales increased by 19.8% to £25.3 million (2020: £21.1 million). Internationally, revenue increased 28.9% from £19.1 million in 2020, to £24.7 million 2021. In Europe Group sales increased by 19.4% to £18.0 million (2020: £15.1 million). In the rest of the world Group sales increased by 93.7% to £3.7 million (2020: £1.9 million). In the US Group sales increased by 38.5% to £3.0 million (2020: £2.1 million).

E-commerce sales continued to grow in the year and now represent 2.7% / £1.3 million of group revenue (2020: 1.3% / £0.5 million).

Other income of £nil was received from the UK Government's furlough scheme in the year (2020: £0.4 million).

Product Gross Margin

Gross margin was 33.8% for the year compared to 31.1% in 2020. Since the start of 2021 we have noticed slight price increases in US dollars coming from our supply base in China and container freight rates have increased dramatically. We also noticed an increase in outbound freight costs to deliver goods to our European customers. Nevertheless, together with a weakening dollar compared to 2020, our management teams across the Group were swift to recognise and navigate cost headwinds so that new product development and sourcing helped achieve a gross margin improvement.

Container freight costs have increased as a percentage of the cost of goods by 11% in 2021, costing an additional £3.0 million, compared to container rates in 2020. As we end Q1 2022 container rates have begun to fall, and if maintained will improve our gross margin in the current year.

We remain focused on improving gross margin where possible in all our businesses and are making good use of our Hong Kong buying office to ensure this happens. To counter currency pressure, we continue to move production to new factories of equal quality to retain or improve margin and have a natural hedge from our US dollar revenue.

In the USA our strategy to exit sales of locally sourced close-out brands and to focus on the sale of our Group brands is complete and this has helped improve the gross margin in the USA to be more in line with the rest of the Group.

At 31 December 2020 options were in place for the purchase of US$18 million at US$1.3260/£, this has helped to protect our margin in the turbulent foreign exchange markets. Similarly, at 31 December 2021 options were in place for the purchase of US$27 million at US$1.3849/£. Since the start of this year we have purchased more forward options to help protect our gross margin in 2022.

Operating Expenses

Total operating expenses before exceptional items, amortisation costs, depreciation, foreign exchange movements and share based payments, grew more slowly than sales, increasing by 5.7% to £9.2 million in the year (2020: £8.7 million). Operating costs as a percentage of sales reduced from 21.6% to 18.4%.

The overall increase of £0.5 million in the year was necessary to support the growth of the business. Increased costs amounted to £0.7 million and were made up of increases in wages and salaries, office costs, the spend on PR and marketing as e-commerce sales continue to grow, professional fees and the cost of a larger sales team based in the US. There was a decrease in the charge for bad debts of £0.2 million.

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

Adjusted EBITDA

The board considers Adjusted EBITDA (adjusted for foreign exchange movements, share based payments and exceptional items) a key measure of the performance of the Group and one that is more closely aligned to the success of the business. Adjusted EBITDA for the year was £7.7 million (2020: £4.2 million).

Financial Review (continued)

Profit Before Tax

Group profit before tax for the year was £3.7 million (2020: £1.1 million loss). The material changes in profitability between 2021 and 2020 were:

	Effect on Profit
Sales volume growth	£3.0 million
Margin growth	£1.3 million
Increase in operating expenses	(£0.5) million
FX gain in 2021 £0.6 million (2020: Loss £0.4 million)	£1.0 million
Decrease in the cost of share option schemes	£0.5 million
Increase in exceptional costs	(£0.3) million
Decrease in other operating income	(£0.2) million

Exceptional Items

Exceptional items include £0.03 million of staff restructuring and voluntary redundancy costs (2020: £0.24 million), and £0.19 million of non-recurring legal costs (2020: £0.08 million), and a £0.37 million provision for content use and associated legal fees (2020: £nil).

The Group is currently in dispute with a third party relating to the historic use of content on the Group's social media platforms in the period 2018 through to early 2021. As a result of legal advice received as to the likely quantum of liability a provision of £370,000 has been made as the directors' best estimate of the expected liability and associated legal costs. The payment and the restriction of content use will not affect the ongoing running of the Group's business.

Tax

The tax rate for the Group for 2021 was 24% compared to the UK corporation tax standard rate of 19% for the year. Since the acquisition of LMS, the Group is exposed to tax in the USA at an effective rate of approximately 25% and in other jurisdictions the Group operates cost centres, but these are not materially exposed to changes in tax rates.

Earnings Per Share

The statutory basic and diluted earnings per share was 3.69p and 3.68p respectively in 2021 (2020: 1.31 loss).

The adjusted basic and diluted earnings per share before exceptional items, amortisation costs and share based payments was 7.80p and 7.79p respectively in 2021 (2020: 3.14p).

Dividends

The board is recommending a final dividend for 2021 of 3.5 pence per share, making a total dividend for the year of 6.0 pence per share of which 2.5 pence per share was paid on 26 November 2021 (2020: total dividend of 5.8 pence per share, of which the interim dividend was 2.8 pence per share that included a special dividend of 1.3 pence per share to reflect that no final dividend was declared for 2019, and the final dividend which was 3.0 pence per share). The dividend for the year was covered 1.3 times by adjusted earnings per share.

Cash Flow and Cash Position

Net cash flow generated from operating activities was £5.1 million (2020: £7.5 million). The Group's cash balance decreased by £0.8 million to £4.1 million in 2021 (2020: £4.9 million). The cash generated was principally used to make dividend payments in the year.

We expect capital expenditure requirements of the Group to remain low, however as part of our strategy to grow market share in the UK and US there will be occasions where investment in store furniture is required to secure that business. In 2021 £0.49 million was spent on store furniture for Tesco and wilko (2020: £0.66 million), and £0.11 million was spent on new computer software and equipment, and other general office fixtures and fittings and plant upgrades (2020: £0.18 million).

LTIP, EMI & CSOP Share Options

On 25 May 2021 CSOP share options were granted over a total of 400,000 ordinary shares of 25p each in the Company under the Warpaint London PLC Company Share Option Plan and the Warpaint London plc Enterprise Management Incentive Scheme. The options provide the right to acquire 400,000 ordinary shares at an exercise price of 122.0p per ordinary share.

The LTIP, EMI & CSOP share options had no dilutive impact on earnings per share in the period. The share-based payment charge of the LTIP, EMI and CSOP share options for the year was £0.18 million (2020: £0.66 million) and has been taken to the share option reserve.

Balance Sheet

Inventory was £3.7 million higher at the year end at £18.1 million (2020: £14.4 million). The rise in inventory is a function of growth in the business and to ensure delivery disruption is avoided for our customers. One of the Group's unique selling propositions is that it can deliver a full range of colour cosmetics to our customers, in good time all year round. Having appropriate inventory levels is vital to providing that service. The provision for old and slow inventory was £0.52 million, 2.8% at the year end (2020: £0.52 million, 3.5%). Across the Group we have worked hard in the year to sell through older stock lines, allowing for our provision for old and slow inventory to fall 0.7% in percentage terms in the year. Our Group policy is to provide for 50% of the cost of perishable items that are over two years old. However, we remain comforted by the fact that many such items in the normal course of business are eventually sold through our close-out division without a loss to the Group.

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, which have improved on the prior year. At the year end trade receivables, excluding other receivables, were £8.8 million (2020: £7.8 million), the increase on 2020 due to the rise in sales year on year. The provision for bad and doubtful debts carried forward at the year end was £0.07 million, 0.8% of gross trade receivables (2020: £0.04 million, 0.6%).

Included within borrowings and lease liabilities is an invoice and stock finance facility used to help fund imports in our gifting business, and term loans and hire purchase contracts. At the year end no invoice finance remained outstanding (2020: £0.3 million). The balance outstanding on the term loans and hire purchase contracts at the year end totalled £nil million, having been repaid in full in April 2021 (2020: £0.3 million). The Group was therefore debt free at the year end and does not expect to utilise its £8.5 million invoice and stock finance facility during 2022.

Working capital increased by £0.9 million in the year, to £26.2 million. The main components were an increase in inventory of £3.7 million, an increase in trade and other receivables of £1.1 million, a decrease in cash at the year end of £0.8 million, and an increase in trade and other payables of £3.1 million.

Free cash flow (cash from operating activities less capital expenditure) remained strong at £4.5 million (2020: £6.6 million).

The Group's balance sheet remains in a very healthy position. Net assets totalled £36.2 million at 31 December 2021, a decrease of £1.2 million from 2020, as a consequence of £4.2 million of dividends paid in the year. Most of the balance sheet is made up of liquid assets of inventory, trade receivables and cash. Included in the balance sheet is £7.3 million of goodwill (2020: £7.3 million) and £2.3 million of intangible fixed assets (2020: £4.7 million) arising from acquisition accounting. As at the year end cash totalled £4.1 million (31 December 2020: £4.9 million).

Financial Review (continued)

The balance sheet also includes £3.1 million of right-of-use assets. £3.1 million is the inclusion of the Group leasehold properties, now recognised as right-of-use assets as directed by IFRS 16. An equivalent lease liability is included of £3.2 million at the balance sheet date.

Foreign Exchange

The Group imports most of its finished goods from China paid for in US dollars, which are purchased throughout the year at spot as needed, or by taking forward purchase foreign exchange options when rates are deemed favourable, and with consideration for the budget rate set by the board for the year. Similarly, foreign exchange options are taken to sell forward our expected Euro income in the year to ensure our sales margin is protected.

We started 2021 with 42 options in place for the purchase of US$18 million at US$1.3260, and the sale of €5.1 million @ €1.1077. During 2021 when currency rates were favourable, we purchased 40 foreign exchange options which were outstanding at 31 December 2021, for the purchase of US$27 million at US$1.3849, and the sale of €3.9 million @ €1.1558.

The Group has a natural hedge from sales to the US which are entirely in US dollars, in 2021 these sales were $4.08 million (2020: $2.74 million). Together with sourcing product from new factories where it makes commercial sense to do so and by buying US dollars when rates are favourable, we are able to mitigate the effect of a strong US dollar against sterling.

Section 172(1) Statement

The directors are well aware of their duty under section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company

(the "Section 172 (1) Matters").

Induction materials provided on appointment include an explanation of directors' duties, and the board is regularly reminded of the Section 172(1) Matters, including as a rolling agenda item at every main board meeting.

Further information on how the directors have had regard to the Section 172(1) Matters can be found on pages 37 to 38. This information forms part of the strategic report and has been approved for issue by the board on 25 April 2022.

Neil Rodol
Chief Financial Officer
25 April 2022

Risk Management

Warpaint 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 ("FX")

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. We continue to review our hedging policy to ensure it remains appropriate while we look to increase our international business. There is a Group FX committee made up of senior management who communicate regularly. Whenever possible FX is purchased (using foreign exchange forward options) at, or as close as possible to, the budget rate to cover the annual needs of the business.

Reliance on Key Suppliers

In 2021 one key supplier from China was responsible for approximately 24% (2020: 25%) of the Group's brand ranges of colour cosmetics. If there were some catastrophic event that reduced or stopped the supply from this key supplier then the directors are able to place orders with other existing suppliers. However, this would take several months to implement and such an event would therefore have a material adverse effect on the Group's financial position, results of operations and future prospects. Management retain close relations with suppliers with relatively short lead times, and the Group typically holds four to six months of stock at any one time, nevertheless the sourcing of new suppliers in a wider geographic location is ongoing.

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 ingredient independently checked by a qualified chemist for compliance with UK, EU and when necessary and any other relevant legislation, including in the USA, and maintain adequate product and public liability insurance to ensure that any claims have little impact on the Group's profitability.

Significant Customers

The Group has one customer in Denmark with over 350 stores across Denmark, Norway, Sweden, Finland, Holland and France. In 2021 this customer represented 10.2% (2020: 9.7%) of Group revenue, we currently have an excellent working relationship with this customer. Significant goodwill in our Group brands has been built up by this customer. The directors believe that, should the customer decide not to sell our brands, a large amount (if not all) of the existing business will be taken up by other retailers in Denmark, Norway, Sweden, Holland and France.

Location

The Group has the majority of its operations and assets split across two locations in Iver and Silsden in the UK; if a fire were to befall either of the premises occupied by the Group, a significant amount of 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. Fire alarm systems are tested weekly, smoke detectors inspected quarterly, fire extinguishers tested annually, and trained fire marshals are onsite. Staff have regular fire drills and fire risk assessments are carried out to ensure compliance with fire regulations.

Brexit

From the 1 January 2021 new terms of trading with our EU customers have been in place using internationally recognised INCO terms. There is now an extra layer of cross border compliance and paperwork required which we were well prepared for having taken expert advice from customs experts and shippers. We have made good use since the start of 2021 of our wholly owned subsidiary Warpaint Cosmetics (ROI) Limited in the Republic of Ireland specifically to help protect us against any UK/EU cross-border disruption, and to serve our European customers from a Euro Hub to provide an alternative supply route. In addition, one of our wholly owned subsidiaries is registered for VAT locally

Risk Management (continued)

in the Netherlands, to provide another route into the EU in order to serve our customers more efficiently.

Cyber Attacks

There is an increasing risk that cybercrime will cause business interruption, loss of key systems, loss of online sales, theft of data or damage to reputation. The Group regularly review and invest in the development and maintenance of our IT infrastructure, systems, and security. We have in place disaster recovery and business continuity plans that are tested annually. The Group have a password policy in place and utilises Multifactor Authentication (MFA) before access is granted to its systems and data.

Covid-19 Pandemic

Covid-19 or another similar virus pandemic will cause major disruption to the business. Staff will be absent either through illness or from isolation measures, the business strategy will be affected, delayed and perhaps will require reassessment, capital markets and foreign exchange markets will become volatile, and the supply chain and our customer base may temporarily close down.
In a pandemic situation we will follow Government guidelines and enable staff to work remotely where possible, until such time that they can return to work with new workplace safety measures in place, we will explore and examine liquidity continuity measures and implement business continuity plans. A committee made up of the Chief Executive Officer, the managing director of Retra and Keith Sadler, a non-executive director will be utilised to formulate and implement a Group wide response in the event of a further pandemic or other similar disruptive event.

This Strategic Report was approved by the board on 25 April 2022 and signed on its behalf.

Neil Rodol
Chief Financial Officer

Members of the Board

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

Board of Directors

Clive Garston, Non-Executive Chairman (Insider Committee (Chair), Remuneration Committee, Audit Committee)
Clive has been Non-Executive Chairman of the Group since November 2016. He has been a corporate lawyer for over 40 years specialising in corporate finance and mergers and acquisitions. 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).

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

Eoin Macleod, Managing Director
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 fragrances directly to the public through London street markets as well as selling into the wholesale sector and then expanding into selling cosmetics. In 1992 he formally went into business with Sam, operating initially in the close-out cosmetics and fragrance industry. Together with Sam Bazini, Eoin developed the business which resulted in the formation of W7.

Neil Rodol, Chief Financial Officer (Insider Committee)
Neil joined the Group in August 2015, having previously been an adviser to the business for several years. He has overseen the introduction of new systems and procedures. He joined the board as Chief Financial Officer in November 2016. Over the last 21 years he has been involved in several corporate purchases and acquisitions. In 2006, he sold his publishing company to a quoted group and became the group licensing director; in 2014 he completed a management buyout. Neil trained as an accountant at BDO Stoy Hayward and holds an honours degree in Maths and Computer Science.

Sally Craig, Group Counsel & Company Secretary
Sally has been Company Secretary to Warpaint London plc since February 2017 and was appointed to the board in September 2018. She is also the Corporate Finance, Legal and Regulatory Officer & Company Secretary of Diaceutics plc, an AIM quoted diagnostic commercialisation company for the precision medicine industry. She is a solicitor and has previously practised as a corporate lawyer. She has many years' experience providing company secretarial services to private and public companies in the UK including then AIM listed, Osmetech plc. She holds an honours degree in law from Manchester Metropolitan University.

Paul Hagon, Executive Director

Paul joined the Group as a Non-Executive Director in November 2016, subsequently becoming an executive director on 1 January 2021, the effective date of the renewal Company's strategic consultancy agreement with Ward & Hagon Management LLP. 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 (Audit Committee (Chair), Remuneration Committee (Chair)

Keith joined the Group as a Non-Executive Director in November 2016. He is also a non-executive director of Hawkwing plc, for which he chairs the audit committee and non-executive director of HR Dept. Limited, a professional services business, and Silver Bullet Data Services Group Ltd, a contextual data management marketing organisation. Historically, Keith has been CEO or CFO of a number of quoted companies in the marketing services, telecoms and media industries. Keith is a chartered accountant and holds an honours degree in economics from the University of Kent.

John Collier, Non-Executive Director (Audit Committee, Remuneration Committee)

John joined the Group as a Non-Executive Director in September 2021. He is a Canadian national, based in New York, USA, who has spent nearly 30 years in the consumer goods industry, primarily at Revlon, the multinational cosmetics, skin care, fragrance, and personal care company. More recently, Mr Collier has been appointed as President of Swiss oral beauty and health company, vVARDIS Inc. Prior to founding his own New York based advisory business he was at Revlon between 1996 and 2018, latterly as President, North America. In this role he managed operations with approximately US$1.7 billion of annual sales, with responsibility for brand assets and commercial relationships spanning direct, e-commerce, speciality and prestige sales channels. His prior roles at Revlon included senior management positions with responsibility for brand and market development, including implementing e-commerce strategies.

Corporate Governance Report

Chairman's Introduction

I am pleased to present the Corporate Governance Report for the year ended 31 December 2021. As an AIM quoted company, we recognise the importance of sound corporate governance in supporting and delivering the strategy of the Company and its subsidiaries (together the "Group"). This involves managing the Group in an efficient manner for the benefit of its shareholders and other stakeholders whilst maintaining a corporate culture which is consistent with our values. The Company adopted the QCA Corporate Governance Code ("QCA Code") on 25 September 2018 and this is reviewed each year. The Company's Corporate Governance Statement is available to view on the Company's website at www.warpaintlondonplc.com

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

The routine running of the Company is delegated to the Chief Executive Officer and his management team. However, strategy, dividend policy and risk management amongst other matters are reserved to the board.

The Chairman is responsible for the running of the board and the Chief Executive Officer is responsible for delivering the Group strategy.

The Covid pandemic continued to impact on the means of communication with the Group's stakeholders in 2021 but wherever possible communication which would otherwise have taken place face-to-face has been undertaken virtually.

This report sets out our approach to governance and provides further information on the operation of the board and its committees and how the Group seeks to comply with the ten principles of the QCA Code.

Clive Garston
Chairman

Principle 1 - Establish a strategy and business model which promote long term value for shareholders

Business Overview

Warpaint sells branded cosmetics under the lead brand names of W7 and Technic. W7 is sold in the UK primarily to retailers and internationally to local distributors or retail chains. The Technic brand is sold in the UK and continental Europe with a significant focus on the gifting market, principally for high street retailers and supermarkets. In addition, Warpaint supplies own brand white label cosmetics produced for several major high street retailers. The Group also sells cosmetics using its other brand names of Man'stuff, Body Collection, Very Vegan, and Chit Chat.

Strategy

On an annual basis the board of directors carries out a process of developing a three-year strategic plan for the business based on market data, experience and the Group's aims. This is targeted by year and measured monitored and reviewed as part of the boards on-going business throughout the year. The strategic plan has been updated for 2022 forming the basis of the Group's development through to 2024. The plan is designed to drive shareholder value and has defined targets for sales, EBITDA, earnings per share and cash generation with a particular emphasis on driving incremental EBITDA growth.

The strategic plan comprises six key pillars:

- **Develop and build the Group's brands and provide new product development that meets changing trend and consumer needs**
  The Group ensures that everybody within the business has crystal clarity of the positioning of the Group's portfolio of brands; that there is a clear brand hierarchy; non-core brands and products are eliminated; that close-out continues to reduce

as a proportion of sales; and the Group delivers quality new product development and gifting sets that are on-trend and meet the consumers' changing needs.

- **Develop and nurture the current core business**
  A major objective of the Group is to continue to develop and grow the presence of the Warpaint brands beyond their existing customer base. There is still, however, significant potential to be realised and further distribution gains in the current customer base, and the board is committed to ensuring this potential is maximised. The Group is focused on ensuring there is a clarity of product offering to each customer segment and to supporting its customers with relevant new products; by using appropriate marketing and innovative merchandising solution to draw consumers into customer stores; and by cross selling the Group's brands and categories for example accessories, body mists, gifting and skin care where appropriate.

- **Grow Market Share in the UK**
  The business continues to focus on increasing the presence of the Group's brands in channels that our consumers shop in, to increase accessibility and drive profitable market share growth. As a result of this strategy, the Group has successfully launched the W7 brand into Tesco, where distribution gains across all store formats are successfully being driven, into Boots and the Technic brands into wilko. It continues to have active discussions with other major retailers who are currently in channels that the Group is yet to materially supply to and expanding the UK customer base is a key focus of management. This is particularly opportune as consumers and retailers across all sectors alike are increasingly looking to provide quality products to their customers at affordable prices.

- **Grow market share in the USA and China**
  The USA and China continue to provide a major growth opportunity for the Group. In the USA, the Group is establishing agency channels and using employees to directly sell to retailers. A core product range for the USA has been established with minimum margin requirements; whilst targeted discussions are now underway to gain both gifting and all year around listings. In China the Group conducts business locally through its Chinese subsidiary company. We are also continuing to register products for sale in China in order to grow our total offering and increase sales. This has led to the development of relationships with distributors in the region who have the capability to drive sales of the W7 brand via a W7 storefront and on-line marketplaces.

- **Develop the online/e-commerce strategy for brand development and profitable sales**
  The Group aims to grow and maximise profitable sales across its on-line sales channels. As well as continuing to sell on the business's own websites and developing its own consumer community, plans continue to be executed to develop sales across Amazon platforms. W7 stores have been launched in the UK, USA and Europe on Amazon and are fulfilled by Amazon. Further on-line sales platforms and geographies will be evaluated and, where profitable opportunities identified, launched over the course of the three year plan. The Group continues to develop and build its brands by utilising brand ambassadors, influencers and make-up artists to engage actively with its target audience. The Group wants to ensure that consumers are adequately inspired and educated on how the Group's products can be used to experiment and achieve different looks. Developing the social media strategy also directly impacts the Group's online sales strategy.

- **Develop and implement appropriate strategies that ensure Warpaint reduces its impact on the environment**
  The Group recognises consumers', customers' and our own requirement to reduce our environmental impact. The business has already identified and implemented a number of initiatives to reduce our environmental footprint via reduced shipping and road mileage; removing plastics where possible from packaging and improving recyclability; removing parabens from ingredients; and ensuring that all products are manufactured cruelty free. Further initiatives have been identified and targeted with the aim of being implemented across the course of the three year plan.

Corporate Governance Report (continued)

Principle 2 - Seek to understand and meet shareholder needs and expectations

The Company remains committed to communicating openly with all of its shareholders, both private and institutional. This enables the Company to ensure that its strategy, business model and performance are clearly understood. It also enables the Company to appreciate the needs and expectations of shareholders and respond to queries promptly and comprehensively. The board declared an interim dividend of 2.5p per share which was paid on 26 November 2021. In accordance with the Group's policy to pay appropriate dividends, the board is recommending a final dividend for 2021 of 3.5p per share, making a total dividend for the year of 6.0p per share.

All individual investor queries should be addressed to the Warpaint company secretary at: investors@warpaintlondonplc.com or to the Company's retained investor relations advisor, IFC Advisory Limited at: warpaint@investor-focus.co.uk

Private Investors

The board recognises that the Annual General Meeting ("AGM") is an important opportunity to meet private shareholders. Each substantially separate issue is the subject of a separate resolution at the AGM and all shareholders have the opportunity to put questions to the board. All board directors endeavour to attend AGMs and answer questions put to them which may be relevant to their responsibilities. In addition, the directors are available to listen informally to the views of shareholders immediately following the AGM, which for 2022 is proposed to be held in person, allowing all shareholders an opportunity to ask questions or represent their views.

For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The Company releases the voting results for the AGM and other General Meetings by RNS and the results of the AGM are published on the Company's website.

Corporate information, including Company announcements and presentations, are also available to shareholders, investors and the public on the Group's website www.warpaintlondonplc.com The Company's contact details and email address for investor queries, and correspondence address are listed on the website and the website offers a facility to sign up for email alert notifications of the Company's news and regulatory announcements.

Institutional Shareholders

The Chief Executive Officer, the Managing Director and the Chief Financial Officer make presentations to institutional shareholders and participate in investor presentations both following the announcement of the full-year and half-year results and, at other times throughout the year. Not every executive officer participates in every investor presentation. The Chairman participates in these presentations where appropriate and is always available to speak with shareholders. Dialogue with individual institutional shareholders also takes place in order to understand and work with these investors to seek to comply with their investor principles where practicable. The board responds to and will take account, wherever possible, of recommendations made by proxy adviser companies.

The Covid pandemic prevented face-to-face communication with shareholders in 2020 which meant that all communication was necessarily held virtually. The pandemic has continued to impact on communications in 2021 and whilst some face-to-face interaction took place with investors in 2021, virtual presentations and investor meetings were also utilised and this will continue to be so for the foreseeable future, alongside face-to-face meetings. The board believes that this virtual forum is an important tool in enabling the Company to be agile and flexible in communications with investors, allowing greater investor interaction.

In 2021, after the announcement of the Company's Interim Results for the six months ended 30 June 2021, Warpaint's management hosted an online presentation and Q&A session, which was open to all existing and prospective shareholders.

Principle 3 - Take into account wider stakeholder and social responsibilities and their implications for long-term success

The key stakeholders for the Group are customers, distributors, suppliers, employees, shareholders and the environment and community in which we live. Whilst interactions take place at all levels of the Group, the directors are aware of the importance of the relationships with key stakeholders and feedback is utilised wherever possible to sustain these relationships in order to drive the long term success of the business. Face to face communications were largely curtailed in 2020 due to Covid-19 and, continued to impact to a lesser extent, in 2021. This has meant that many interactions with our stakeholders have taken place virtually. This has not only maintained, but in many instances enhanced our relationships with several of our key stakeholders and will be continued for the foreseeable future, alongside face-to-face interaction where this is key to maintaining and developing the stakeholder relationship.

Business relationships with the following stakeholders are described below. The effect of any such engagement on key decisions in the financial year to 31 December 2021 are set out below and detailed on pages 47 to 50.

- **Customers**
  Feedback with trade customers is initially directed through dedicated account managers followed by engagement with our administration teams. For end user customers feedback is garnered through the peer to peer review site Yotpo, and social media such as Facebook, Twitter, Instagram and Pinterest. The Group's consumer customers frequently contact the Company by writing, by email, direct calls to the head office and through the website www.w7cosmetics.co.uk where they are also able to leave comments. We endeavour to respond to all customers who contact us in a swift and efficient manner typically by email or direct calls with all responses followed up to seek to achieve a positive outcome. During 2021 we have continued to support our trade customers wherever possible in connection with the ongoing impact of the pandemic. Trends in the cosmetic business are dynamic and swift reaction to feedback is also vital in introducing new products and updating our product range.

- **Distributors**
  We seek to strengthen our relationships with our distributors to garner feedback and provide support with regular meetings, attendance at trade shows (which, during 2021 have been largely virtual) and by maintaining close contact with them through our sales representatives. During 2021, we have maintained our relationships with our distributors and continued to support them wherever possible. Our distributors provide feedback on product suitability including in regions of the world where there may be cultural or other sensitivities in the product packaging and branding. Different regions may also call for particular colour mixes and shades and such feedback enables us to optimise and tailor products in these regions. The aim is to align the interests of the distributor with those of the Group.

- **Suppliers**
  Suppliers are visited at least annually and regular contact maintained at other times through trade shows, meetings and other close communications, which during 2021 have been largely virtual. The Group's principal suppliers are made to feel part of the organisation with an open and honest dialogue encouraged so that feedback can be communicated and a rapid response provided. The Group has an office in Hong Kong enabling more frequent visits and enhanced supplier contact. A strong relationship with the Group's suppliers is vital to the long term success of the Company.

- **Employees**
  The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officer and the Managing Director engaging daily with employees across the business. Communication is encouraged both on an informal basis and through regular departmental meetings, where input from colleagues is welcomed in any area. Communication channels within the business are key and the open-door policy and regular meetings aid this.

  Where practicable, consideration is given to flexible working. This was increasingly important during 2020 to minimise the impact on our employees of the pandemic and lockdowns and the Group continues to allow flexibility wherever possible, with help with working from home and flexible working where practicable. Most employees have returned to on-site working but we have continued to support those employees for whom a complete return to full time on-site working is not practicable or desirable. As always, the well-being of our staff is paramount and particularly so during the current climate, with disruptions to schooling and sickness due to Covid and other factors, continuing throughout 2021 and into 2022.

- **Shareholders**
  The means of engagement with shareholders is detailed in Principle 2 above.

- **Community and Social Responsibilities**
  Wherever possible we employ staff from the local area and encourage the use of car sharing and public transport to

Corporate Governance Report (continued)

reduce the impact on local roads. We manage the times of our incoming and outgoing deliveries in order to limit any disturbance to residents in the local area. As a rule, we use local trade's people for goods and services creating employment and income within the area. We support a number of local and national charities and events each year. In addition, in 2021 the Company made a long-term commitment to support a young person's mental health charity, "iHeart", with a donation of funds and visits to schools in Greater London. "iHeart" supports young people by providing a range of specialised courses and programmes on mental health education, resilience and wellbeing.

- **Environment and Sustainability**
  The board is cognisant of its environmental responsibilities and has embedded environmental goals within its long-term strategy, with the aim of continually improving all aspects of its environmental performance, as far as economically feasible. Further information is provided in the Group's ESG Report on pages 39 to 40.

Principle 4 - Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company 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.

Internal Control and Risk Management

The board is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures, which include financial, compliance and risk management, are reviewed on an on-going basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The board has considered the need for an internal audit function, but does not consider it necessary at the current time with the current controls in place and the relative complexity of the business. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The assessment and management of risk is primarily the function of the executive officers, most specifically the Chief Executive Officer for strategic and business risk and the Chief Financial Officer for financial risk. The Group maintains a formal risk register which is reviewed periodically and, where appropriate, matters of risk are referred to the board for consideration. The principal risks identified by the board are set out in the Strategic Report on pages 21 to 22.

Principle 5 - Maintain the board as a well-functioning, balanced team led by the Chair

Composition, Role and Responsibilities

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

The board currently comprises of the Chairman, Clive Garston two non-executive directors, Keith Sadler and John Collier, and five executive directors, Sam Bazini, Eoin Macleod, Neil Rodol, Paul Hagon and Sally Craig, who is also the Company Secretary.

Paul Hagon became an executive director with effect from 1 January 2021. As announced by the Company on 6 February 2020, Ward & Hagon Management Consulting LLP ("Ward & Hagon") was appointed to provide additional strategic resource and to assist the Company in implementing its strategic growth plans. Paul Hagon, then a non-executive director, is a partner of Ward & Hagon and as part of the Ward & Hagon appointment, he fulfilled the role of Interim Strategy and Business Development Director, a non-board role for an initial period of one year. During that period, he remained a non-executive member of the board, but was not independent. On 17 November 2020, the Company announced its intention to renew the contract with Ward & Hagon for a further 12 months. As a result of this, Paul Hagon would no longer be a non-executive director and his position changed to that of an executive director with effect from 1 January 2021, the effective date of the renewal of the Ward & Hagon contract. There were no other changes to the responsibilities of the non-executive directors during the year to 31 December 2021.

John Collier was appointed a non-executive director as of 1 September 2021. Although the UK Corporate Governance Code 2018 does not apply to the Company, under this code the Chairman would not be deemed independent and the board has therefore decided that only the two non-executive directors, Keith Sadler and John Collier are presently independent. The board considers that its composition is appropriate at this stage of the Company's development, but this remains constantly under review as the Group grows in size. At this stage in the Company's development the board does not consider that having a senior independent director is appropriate, but this will also remain under review.

No single director is dominant in the decision-making process.

Board Operation

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

The board aims to meet ten times each year for regular board meetings, which are scheduled prior to the commencement of each financial year. These meetings are scheduled to coincide with the announcement of the Company's annual and half yearly accounts and throughout the remainder of the year at regular monthly intervals. These are supplemented by additional meetings where required for business including informal business reviews, to review budgets and to focus on strategy, with one dedicated strategy session each year to formulate, evaluate and interrogate the Group's near and long-term strategy. Dialogue occurs regularly between directors outside of scheduled meetings.

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

Board Meetings

The board met 16 times during the financial year ended 31 December 2021. 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. One of these meetings includes a dedicated focused, strategy session.

In the event that directors are unable to attend a meeting, their comments on papers submitted may be discussed in advance with the Chairman enabling their contribution to be included in the wider board discussion.

Board and Committee Meeting attendance for the year ended 31 December 2021

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

	Board	Audit	Remuneration	Insider
Clive Garston	16/16	2/2	3/3	None
Sam Bazini	16/16	n/a	n/a	None
Eoin Macleod	15/16	n/a	n/a	n/a
Neil Rodol	16/16	n/a	n/a	None
Sally Craig	16/16	n/a	n/a	n/a
Paul Hagon	16/16	n/a	n/a	n/a
Keith Sadler	16/16	2/2	3/3	n/a
John Collier *	4/16	1/2	2/3	n/a

* Appointed 1 September 2021.

The following directors are each required to commit at least the following number of days per week to their roles: The Chief Executive Officer and Managing Director, five days; the Chief Financial Officer, four days and the General Counsel & Company Secretary, three days (26 hours). Paul Hagon, executive director, and the non-executive directors are required to provide such time as is required to fully

Corporate Governance Report (continued)

and diligently perform their duties. All board members are expected to attend all meetings of the board and the committees on which they sit, wherever possible.

Board Rotation

The Articles of Association of the Company (the "Articles") require that one-third of the directors must stand for re-election by shareholders annually in rotation and that any new directors appointed during the year must stand for re-election at the AGM immediately following their appointment. In accordance with the Articles, John Collier will stand for re-election at the AGM to be held in 2022 and Samuel Bazini and Sally Craig will retire by rotation and stand for re-election at the AGM.

Principle 6 - Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

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

The biographies of each of the directors, including the committees on which they serve and chair, are shown on pages 24 to 25.

The skills brought to the board are as follows:

Clive Garston (Chairman)
Corporate finance, legal, public companies and markets, corporate governance
Sam Bazini (Chief Executive Officer)
Co-Founder of W7, entrepreneurship, industry knowledge and experience
Eoin Macleod (Managing Director)
Co-Founder of W7, entrepreneurship, industry knowledge and experience
Neil Rodol (Chief Finance Officer)
Financial skills, industry and public company experience
Sally Craig (General Counsel & Company Secretary)
Legal, company secretarial and public company experience
Paul Hagon (Executive Director)
Retail and wholesale business experience and strategic planning
Keith Sadler (Non-Executive Director)
Financial skills, communications and public company experience
John Collier (Non-Executive Director)
Cosmetic industry, brand and marketing development experience

The board is satisfied that, between the directors, it has an effective and appropriate balance of skills, knowledge, experience and time committed to enable it to deliver the strategy of the Group, it is nevertheless mindful of the need to continually review the needs of the business to ensure that this remains true. Involvement with a variety of other boards allows the members to witness alternative approaches to similar business issues and to benefit from the advice of more than just the Group's advisers.

Directors attend seminars and other regulatory and trade events where appropriate to ensure that their knowledge and industry sector contacts remain current and may attend such courses or training, as they feel appropriate, to keep their knowledge up to date.

External and Internal Advice

The board seeks external advice from time to time to enable it to effectively perform its duties including from its lawyers, accountants, nominated adviser and corporate broker, financial PR advisers and insurance brokers.

All directors have access to the advice and services of the General Counsel & Company Secretary, who is responsible for ensuring that board procedures are followed and that the Company complies with applicable rules, regulations and obligations.

Principle 7 - Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

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

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

Principle 8 - Promote a corporate culture that is based on ethical values and behaviours

The board maintains a corporate culture consistent with the Group's strategic objectives which aims to promote an ethical and responsible business, and which is monitored by the Chief Executive Officer who appraises the board of any issues arising.

The board is equally committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies and procedures to support these standards. These include policies on Anti-Bribery, Whistleblowing and Modern Slavery.

The Group's policies, along with its approach to employees and equal opportunities, the environment, product testing, manufacture and materials and charitable causes are regularly reviewed, and are described below:

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

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

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

- **Employees and Equal Opportunities**
  The well-being of our staff is paramount, and the Company continues to prioritise this in the wake of the Covid pandemic. The Group has implemented back to work procedures and supports those employees for whom a complete return to full time on-site working is not practicable or desirable and those affected by disruptions to schooling, sickness due to Covid and other factors, which have continued throughout 2021 and into 2022.

  The Group has an extremely loyal and diverse workforce and promotes equality of pay and opportunity throughout. The Group has a low staff churn rate, and employees are encouraged and nurtured to attain positions to the best of their ability. Promotions are made from within wherever possible, offering staff mobility from the warehouse floor to administrative roles and managerial positions. A reward structure is in place, which includes the grant of share options, enabling members of staff to participate in the growth of the Company, as appropriate.

  Employee communication is encouraged throughout the Group both on an informal basis and through regular departmental meetings, where input from colleagues is welcomed in any area. Communication is key and the open-door policy operated by the Group and regular meetings aid this.

  The Group's employment policy is set out in the Directors' Report. At senior management level there are 12 female managers and eight male managers, excluding the board. Throughout the Group, the proportion of female to male employees is approximately 68% to 32%.

- **Environment and Sustainability**
  The Board is cogniscant of its environmental responsibilities and has embedded environmental goals within its long-term strategy, with the aim of continually improving all aspects of its environmental performance, as far as economically feasible. Further details of the Group's actions and aims with regard to the Environment and Sustainability

Corporate Governance Report (continued)

are outlined under Principle 3 and in the Group's Environmental, Social and Governance Report.

The Group reports annually against the SECR Streamline Energy and Carbon Reporting ("SECR") requirements and details are set out in the Directors' Report. This shows that the Group's Intensity ratio (tCO2e per m2) for the year ended 31 December 2021 was 6.7, a reduction from 7.3 for the year ended 31 December 2020.

- **Product Testing, Manufacture and Materials**
  The Group's cosmetic products are cruelty free and are not tested on animals irrespective of where the products are being supplied. Animal testing has been banned in Europe since 2013 but the board is aware that in other parts of the world there is still a requirement to test on animals. Wherever and whenever the Group comes across this requirement and are given no choice, it withdraws from sales activity in the territory concerned. The board is keen for cruelty free alternatives to animal testing to become compulsory and animal testing overall to be ceased globally.

  Suppliers provide Good Manufacturing Practice Certificates for all of the factories used in the manufacture of the Group's goods. The Group's main suppliers also produce for worldwide brands, and comfort is taken from the public ethical and sustainability stance around the world of these brands. The Group's suppliers are encouraged to share with the Group the results of their BSCI and Sedex audits when they have taken place.

  Heavy metals such as TBTO (preservative) and other ingredients of concern are not added to the Group's colour cosmetic products and we ensure all raw materials comply with the strict regulations applicable in the EU, USA and Canada.

- **Charitable Causes**
  Warpaint supports a number of local and national charities and events each year. In addition, in 2021 the Company made a long-term commitment to support a young person's mental health charity, "iHeart", with a donation of funds and visits to schools in Greater London. "iHeart" supports young people by providing a range of specialised courses and programmes on mental health education, resilience and wellbeing.

Principle 9 - Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Group's governance structures have been reviewed in the light of the QCA Code. The board believes them to be in accordance with best practice as adapted to best comply with the Group's circumstances and stage of development.

The board has overall responsibility for implementing the Group's strategy and promoting the long term success of the Group. The executive directors have overall responsibility for managing the day to day operational, commercial and financial activities. The non-executive directors are responsible for bringing independent and objective judgement to board decisions.

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

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

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

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

The business reports monthly on its headline performance against its agreed budget, and the board reviews the monthly update on performance and any significant variances are reviewed at each scheduled meeting. The board challenges the executive directors and senior management on performance against budgets, forecasts and key business milestones. Monthly updates on performance are reviewed at each formal board meeting. The board have adopted a set of KPI's against which the performance of the Company and therefore the board, can be measured.

Roles of the Chairman, Chief Executive Officer, Managing Director, Chief Financial Officer and General Counsel & Company Secretary

The Chairman is responsible for running the business of the board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is primarily responsible for implementing and driving the Group strategy once it has been approved, investor relations and overseeing the management of the Company through the executive team. The Managing Director is responsible for driving sales operations and profitability.

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

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

Audit, Remuneration and Insider Committees

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

The Audit Committee and the Remuneration Committee each comprises three non-executive directors: Keith Sadler (Chair), Clive Garston and John Collier. John Collier was appointed to the Audit Committee and the Remuneration Committee upon his appointment to the board on 1 September 2021. Prior to this the Audit Committee and Remuneration Committee comprised the two non-executive directors at that time, Keith Sadler (Chair of both committees) and Clive Garston. The Insider Committee comprises one non-executive director and two executive directors: Clive Garston (Chair), Sam Bazini and Neil Rodol.

During the financial year ended 31 December 2021, the Audit Committee met twice, the Remuneration Committee three times and the Insider Committee did not meet. From time to time separate committees are set up by the board to consider specific issues when the need arises.

Due to the size of the Group, the directors have decided that issues concerning the nomination of directors will be dealt with by the board rather than a committee, but will regularly reconsider whether a Nominations Committee is required. In November 2020 the board formed an *ad hoc* nomination subcommittee comprising of Keith Sadler (Chair), Sam Bazini and Clive Garston, to identify and make a recommendation to the board for a candidate for a new non-executive director, which culminated in the appointment of John Collier in 2021.

Principle 10 - Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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

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

Corporate Governance Report (continued)

The board receives regular updates on the views of shareholders through briefings and reports from the executive directors, the Company's brokers and PR advisers. The Chief Executive Officer, the Managing Director and the Chief Financial Officer make presentations to institutional shareholders and participate in Investor Road Shows both following the announcement of the full-year and half-year results and, at other times throughout the year. Not every executive officer participates in every investor presentation. The Chairman will participate in these presentations in future where appropriate and is always available to speak with shareholders. In September 2021, after the announcement of the Company's Interim Results for the six months ended 30 June 2021, Warpaint's management hosted an online presentation and Q&A session which was open to all existing and prospective shareholders.

Dialogue with individual institutional shareholders also takes place in order to understand and work with these investors to seek to comply with their investor principles where practicable.

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

The Company's means of communicating with its other stakeholders are set out in Principle 3.

The Reports of the Audit Committee and the Remuneration Committee describe the responsibilities of those committees and the work undertaken throughout the year.

Section 172 Statement

Section 172 Companies Act 2006

The directors are well aware of their duty under section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company

The board always takes decisions for the long term, and collectively and individually aims to uphold the highest standards of conduct. Similarly, the board understands that the Company can only prosper over the long term if it understands and respects the views and needs of its customers, distributors, employees, suppliers and the wider community in which it operates. A firm understanding of investor needs is also vital to the Company's success along with a sustainable and environmentally responsible culture.

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with Section 172 of the Companies Act 2006 and the text of Section 172 of the Companies Act 2006 has subsequently been set out by the General Counsel & Company Secretary on each main board agenda by way of a reminder with the corresponding headline decisions recorded.

Relations with shareholders are detailed in the Corporate Governance Report. Relations with other key stakeholders such as employees, distributors, customers and suppliers are considered in more detail in the Corporate Governance Report and in the Engagement with Key Stakeholders section of the Directors' Report.

The board ensures that the requirements are met, and the interests of stakeholders are considered as referred to elsewhere in this report and through a combination of the following:

- A rolling agenda of matters to be considered by the board through the year, which includes an annual strategy review meeting, where the strategic plan for the following year is developed, which is implemented and supported by a budget and a medium term (three year) financial plan.
- Standing agenda points and papers presented at each board meeting, which report on customers, employees and other colleagues, health and safety matters and investors.
- A review of certain of these topics through the Audit Committee and the Remuneration Committee agenda items referred to in this report.
- Detailed consideration is given to of any of these factors where they are relevant to any major decisions taken by the board during the year.

Section 172 Statement (continued)

Key board decisions taken during the year ended 31 December 2021, all of which have long term implications for the ultimate success of the Company, and the Section 172 and stakeholder considerations are set out below.

Key Board Decision	Section 172 and Stakeholder Consideration
Annual Strategy Review meeting held to review and agree the Group's three-year Strategic Plan and KPIs to ensure that it continues to provide the optimum chances of success.	This is aimed at optimising and promoting the success of the Company in the long term, whilst providing measures for success, both vital for the benefit of members and stakeholders.
Continued ongoing adaption of the business and continued safeguarding of employees for the pandemic January lockdown, including rotation of staff at Iver and Silsden. Support for staff and back to work planning to ensure the safety and wellbeing of employees.	Together, these actions and decisions were aimed at protecting employees and supporting them through the continued impact of the pandemic.
Launch of W7 flagship store in China on the T Mall & Red platforms, major step into expansion into this important region.	This was a key movement to address one of the strategic pillars to maximise the business in the long term.
Ongoing management of credit, payment and supply of customers through the difficulties experienced due to Covid restrictions and shipping and distribution disruptions. Situation closely monitored to manage the risk to the business. Decision to expand the online business to support customer sales when stores entered the third Covid-19 lockdown in January 2021. Development and increase of sales in Tesco and B&M, where stores remain open. Strong engagement with customers, suppliers and colleagues was maintained via virtual means to ensure that these relationships were not only unaffected but, in many cases, thrived through the pandemic.	This enabled the Company to assist customers who were impacted by the pandemic restrictions and shipping disruptions thereby maintaining good business conduct and supporting these customers. These decisions were carefully managed to ensure that any risk to the business was minimised.
Decision for a new product development drive and activity to: • Reduce plastics in cosmetic products as far as practicable. • Remove all single use packaging from gifting ranges. • Remove all parabens over the next two years. • Investigate the possibility of making the entire W7 brand vegan friendly as soon as practically possible Decision to introduce virtual cosmetic product testers which are more hygienic, provide cost savings and are more eco-friendly. Decision to restrict travel (particularly air travel) in future and to conduct business virtually where practicable.	To reduce the impact of the Company's operations on the environment.
Decision to move Warpaint's secondary warehousing from Leicester closer to Iver, to ensure a reduction in the time and geographic distance travelled in the movement of stock.	To improve the Company's business operations providing greater efficiency and lessen the Group's environmental impact.
The decision made to renew the contract with Ward & Hagon Management Consultancy LLP, to provide continued strategic resource particularly to access new retail channels with a view to further growing UK market share and developing the US business.	This appointment will impact employees, customers and suppliers and maintain and enhance the Company's high standards of business conduct and drive the Group's strategic plan for the benefit of members.
Declaration of an interim dividend of 2.5p per share which was paid on 26 November 2021. Voting at the AGM was on a poll allowing shareholders proper representation on all resolutions. Along with the investor presentation for institutional investors, an Investor Webinar was hosted online on 22 September 2021, with an online presentation and Q&A session which was open to all existing and prospective shareholders.	To reward all shareholders and ensure that all shareholders are provided with equal opportunity to engage with the Company's management.

Environmental Social and Governance Report

Environment and Sustainability

We are cognisant of our environmental responsibilities and have embedded key environmental goals within our long-term strategy, with the aim of continually improving all aspects of our environmental performance, as far as economically feasible. The Group's strategy is set out in the Chief Executive's Statement and the Corporate Governance Report contains further information on the Group's environmental, social and governance policies and procedures.

Products and Packaging

All plastics have been removed from the outer packaging of our gifting and, practically all of, our all year-round products, and we have virtually eliminated the use of single use packaging in our products completely. We have proactively removed plastics from most of our outer packaging. Our product packaging uses paper and cardboard wherever practicable, which enables us, our retail customers and end user to recycle the waste effectively. We aim to use sustainable FSC, virgin or recycled packaging where feasible, and to become a market leader in this area.

The use of plastic in our product casings is sometimes practically unavoidable, but wherever possible, recyclable packaging is used. The use of plastics in our product casings has previously been challenging to remove, but with our current material developments and understanding, we are working hard testing and sampling new materials. Once this development is complete, these will be implemented to reduce and ensure recyclability for these plastic products before the new 'Extended Producer Responsibilities' regulations come in to force during 2024.

All new Warpaint products are manufactured without parabens and the remaining existing products containing parabens are being reformulated. Our goal is for all Group products to be paraben free within the next 18-24 months.

No heavy metals such as TBTO (preservative) and other ingredients of concern are added to our products and all raw materials comply with the strict regulations applicable in the EU, USA, Canada and other markets in which we operate.

Our products are 'cruelty free' and are not tested on animals irrespective of where the products are being supplied. We support cruelty free alternatives to animal testing to become compulsory and animal testing overall to be ceased globally.

We have a dedicated vegan range, Very Vegan. The majority of the Group's products are vegan and all are expected to be so within the next 18 to 24 months.

Responsible Sourcing

Our suppliers provide 'Good Manufacturing Practice Certificates' for all of the factories used in the manufacture of the Group's products. The Group's main suppliers also produce for worldwide brands, and additional comfort is taken from the public ethical and sustainability stance around the world of these brands. The Group's suppliers are encouraged to share with the Group the results of their BSCI and Sedex audits when they have taken place and, for all its branded products, the Group is adopting a vendor assessment policy that includes ethical and sustainability criteria.

The Group has a dedicated Packaging Technologist and Sustainability Lead whose role is to seek sustainable solutions for our products and packaging which are aligned to our environmental responsibilities and goals. They are also responsible for ensuring the Group's compliance with the increasing regulation in this area, enabling us to continue our mission to provide an extensive range of high-quality cosmetics at an affordable price and to grow the business for the benefit of our stakeholders.

Our Planet and the Environment

We have recently opened our new corporate offices at Iver, UK, a 'green' building with an 'A' rated energy certificate with efficient, sensor based low halogen lighting. The site has electric car charging points which our employees are able to use free of charge, encouraging them to adopt electric vehicles.

We have recently moved our secondary UK warehousing site from Leicester to a site close to Iver. This will reduce the time and geographical distance required to transport stock between sites, thereby reducing the environmental impact of our business. We continue to seek to improve the environmental performance of our sites, to reduce energy consumption and improve our energy efficiency throughout the business.

We are mindful of our carbon footprint in the shipping and transportation of our products from our suppliers to our warehouses and customers. The Group

Environmental Social and Governance Report (continued)

seeks to minimise the Group's carbon footprint as much as possible, for example shipping direct from China to the US for product sales there and using air carriage only when unavoidable.

A large percentage of our interaction with suppliers and retail customers now takes place online. This is encouraged wherever practicable, with travel, and particularly air travel, restricted, with customer, supplier, management and employee meetings held virtually where feasible, ensuring this does not detract from the need to hold face to face meetings where this is conducive to a more productive relationship. This aims to reduce the environmental impact of our travel and is reflected in the Group's travel policy, which encourages essential travel only. Where air travel is deemed necessary the use of airlines which provide carbon offset is encouraged wherever possible.

Our business has evolved such that attendance at trade shows and exhibitions has reduced and we aim to attend virtual trade shows only, wherever possible.

We report annually against SECR reporting standards.

Social Impact

We aim for inclusivity with our products and encourage and promote diversity, equality of pay and opportunity across the Group. The health, safety and wellbeing of our workforce is of paramount importance and we seek to support and benefit the wider community where possible.

Products

We recognise the importance of our products to our consumers whatever their gender, sexuality or racial background and seek to ensure they are inclusive for all.

Our cosmetic and skincare products are developed for every skin tone, with a wide range of shades and we aim to make them as inclusive and affordable as possible.

We recognise our products are gender neutral and for example our Brow King palette was created in collaboration with celebrity brow stylist, Salih Cikikcioglu, we have other product and marketing collaborations with male influencers, and our, 'Here Come the Boys' campaign showcased W7's makeup products with ten male-identified bloggers and makeup artists.

We are committed to ethical and responsible sourcing practices aligned with international standards and protocols for human rights, worker rights, environmental and human health and safety. In support of this commitment, we are seeking to enhance our responsible and ethical sourcing practices to better address the risks and challenges in an increasingly complex global supply chain.

We seek to ensure no product is wasted and for example in conjunction with Tesco, we donate any products remaining in store after short term promotions to be placed in the food bank collection points which are positioned at the front of all large Tesco stores.

Our People and Communities

We have a diverse workforce and promote equality of pay and opportunity throughout. Our employees are encouraged and nurtured to attain positions best suited to their ability, and we promote from within wherever possible.

The health and wellbeing of our employees is paramount. We operate an open-door policy which encourages communication and engagement at all levels of the business with daily interaction and regular departmental meetings where input from colleagues is welcomed in any area.

We support a number of local and national charities and events each year. In addition, in 2021 the Company made a long-term commitment to support a young person's mental health charity, "iHeart", with a donation of funds and visits to schools in Greater London. "iHeart" supports young people by providing a range of specialised courses and programmes on mental health education, resilience and wellbeing.

Corporate Governance

The Corporate Governance Report is set out on pages 24 to 50.

Keith Sadler

Audit Committee Report

On behalf of the board, I am pleased to present the Audit Committee Report for the year ended 31 December 2021.

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

During the year, up until 1 September 2021, the Committee consisted of two non-executive directors: me (as Chairman) and Clive Garston. Upon John Collier's appointment to the board he was appointed to the Audit Committee and from 1 September 2021 the Committee has consisted of three non-executive directors: me (as Chairman), Clive Garston and John Collier.

The Audit Committee is convened as required and met two times during the year ended 31 December 2021 to discharge its responsibilities *inter alia* in connection with the Group's Financial Statements for the year ended 31 December 2020 and the Interim Financial Statements for the six months ended 30 June 2021. A further planning meeting took place with the external auditor BDO LLP during the year. The Chief Financial Officer and the external auditor normally attend Committee meetings. The Committee met with the external auditor without management present during the year.

The board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and, over the past 26 years have served on the board of a number of public limited companies in finance roles including as chief financial officer, group finance director and treasurer.

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

The key responsibilities of the Committee are to:

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

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

Key Activities during the Year

During the year ended 31 December 2021, the Audit Committee has:

- Reviewed and discussed with the external auditor the key accounting considerations, estimates and judgements reflected in the Group's interim results for the six-month period ended 30 June 2021;
- Reviewed and agreed the external auditors audit strategy memorandum in advance of its audit for the year ended 31 December 2021, including a statement on its independence and objectivity;
- Agreed the terms of engagement and fees to be paid to the external auditor for the audit of the 2021 financial statements;
- Received and reviewed statements from management regarding their approach to key accounting considerations, estimates and judgements in the financial statements for the year ended 31 December 2021;
- Discussed the report received from the external auditor regarding its audit in respect of the year ended 31 December 2021;
- Reviewed the half-year and full-year financial statements; and
- Reviewed and approved the Group's viability/going concern statement, including the approach and assumptions taken, giving consideration to key risks.

Governance

Audit Committee Report (continued)

An overview of the Company's approach to risk, risk management and internal controls through 2021, together with a summary of the principal risks facing the Group and its response to the COVID-19 pandemic, is provided in the risk management section.

External auditor

The Committee oversees the Group's relationship with BDO and formally reviews the relationship, policies and procedures to ensure its independence. BDO also reports to the Committee on the steps it has taken through the year to safeguard its independence and to comply with the relevant professional and regulatory requirements. The BDO partner in charge of the audit is David Perry. He has held the role for one year. The maximum term for which a partner in charge can perform the role is five years.

BDO has been auditor to the Group for five years since its appointment in respect of the 2016 year end, with the lead audit partner being rotated on a regular basis, most recently in 2021 as noted above.

The last tender for the audit of Warpaint London plc and its subsidiaries occurred in 2016. The board is satisfied that BDO's appointment as auditor remains appropriate for the size and complexity of the Group, but consideration is given to the tendering for auditors from time to time and this will remain under review. There are no contractual obligations that restrict the Committee's choice of external auditor.

BDO LLP was appointed by the board as the Company's external auditor on 11 June 2021 for the 2021 reporting period and it is their intention to put themselves forward at the AGM to stand as auditors for the next financial period.

The Group paid £165,000 to BDO for audit services in 2021, 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 £30,000 to BDO in 2021, for advice in relation to the adoption of a Company Share Option Scheme, tax advice and interim reviews.

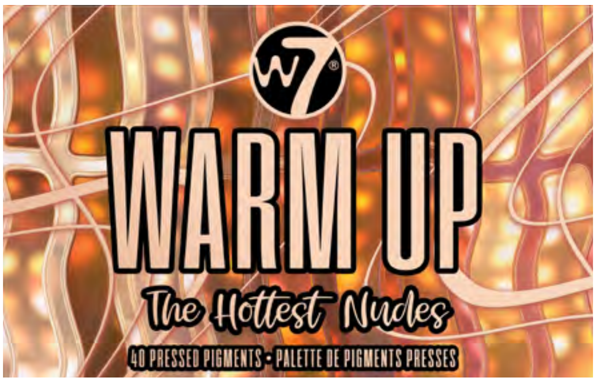
Committee performance and effectiveness

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

Audit Committee Report

This Audit Committee Report was reviewed and approved by the board on 25 April 2022.

Keith Sadler
Audit Committee Chairman



Keith Sadler

Remuneration Committee Report

On behalf of the board, I am pleased to present the Remuneration Committee Report for the year ended 31 December 2021.

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

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Group's policy on the remuneration packages of the Company's Chairman, and the executive directors and such other members of the senior management as it is designated to consider. The Remuneration Committee also has responsibility for determining (within the terms of the Group's policy and in consultation with the Chairman of the board and/or the Chief Executive Officer) 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.

During the year, up until 1 September 2021, the Committee consisted of two non-executive directors: me (as Chairman) and Clive Garston. Upon John Collier's appointment to the board he was appointed to the Remuneration Committee and from 1 September 2021 the Committee has consisted of three non-executive directors: me (as Chairman), Clive Garston and John Collier. The Remuneration Committee is convened not less than twice a year and otherwise as required. The Committee met three times during the year ended 31 December 2021.

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

Key Activities during the Year

During the year ended 31 December 2021, the Remuneration Committee:

- Reviewed the share option award proposals for the grant of options to Neil Rodol and Matt Goldstein under the Warpaint London plc Enterprise Management Incentive Scheme and the Warpaint London plc Company Share Option Plan
- Reviewed the salary and bonus proposals for the executive directors and senior management at or above the committee's review threshold.
- Reviewed the proposal, (taking advice from the Company's nominated adviser) for Ward & Hagon Management Consulting LLP (Ward & Hagon) to be granted share options in connection with the proposed renewal of the Company's consulting contract with Ward & Hagon with effect from 1 January 2022, in recognition of the success of the arrangements to date, and to incentivise Ward & Hagon and align them with the long term interest of shareholders.

External Advice

The Remuneration Committee did not receive any external advice in the year in meeting its responsibilities.

Directors Remuneration Policy

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

Remuneration Committee Report (continued)

Directors' Remuneration for the year ended 31 December 2021

	Salary	Pension	Benefits	Bonus	Total Remuneration 2021 £	Fair Value of Options £	Total Remuneration 2020 £
S Bazini	200,000	–	11,041	30,000	241,041	647,764	239,773
E Macleod	200,000	–	8,833	30,000	238,833	647,764	237,818
N Rodol	155,000	1,758	–	30,000	186,758	368,970	181,314
S Craig	57,500	1,758	–	2,500	61,758	11,762	51,188
C Garston	60,000	–	–	–	60,000	–	60,000
P Hagon	40,000	–	–	–	40,000	–	40,000
K Sadler	40,000	–	–	–	40,000	–	40,000
J Collier *	13,333	–	–	–	13,333	–	–

* Appointed 1 September 2021.

Directors' interests in share options for year ended 31 December 2021

As at 31 December 2021 the following directors held the following performance related share awards (Enterprise Management Incentive Scheme Options, LTIPs or CSOPs) over ordinary shares of 25p each under the Warpaint London plc Enterprise Management Incentive Scheme, the Long Term Incentive Plan and the Warpaint London plc Company Share Option Plan. For details of the share option schemes see Note 23 on pages 82 to 83.

	Type of Share Award	Date of Grant	Number of Shares at 31 December 2021	Exercise Price	End of Performance Period/First Exercise Date	Number of Shares at 31 December 2020 (or date of appointment if later)
S Bazini	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	1,534,986
E Macleod	LTIP	21.09.2018	1,534,986	254.5p	31 Dec 2022	1,534,986
N Rodol	EMI	29.06.2017	105,262	237.5p	29 June 2020	105,262
	LTIP	21.09.2018	306,996	254.5p	31 Dec 2022	306,996
	EMI (Non-Qualifying)	24.05.2021	225,410	122.0p	24 May 2024	–
	CSOP	24.05.2021	24,590	122.0p	24 May 2024	–
S Craig	EMI	29.06.2017	10,000	237.5p	29 June 2020	10,000
	CSOP	20.05.2020	10,000	49.5P	20 May 2023	10,000
P Hagon	–	–	–	–	–	–
C Garston	–	–	–	–	–	–
K Sadler	–	–	–	–	–	–
J Collier *	–	–	–	–	–	–

* Appointed 1 September 2021.

The directors, who held office at 31 December 2021, had the following interests in the ordinary shares of 25p each in the capital of the Company:

	Number of share options held at 31 December 2021 (c)	Number of Ordinary Shares held at 31 December 2021	Ordinary Shares as % of issued share capital	Number of Ordinary Shares held at 31 December 2020
S Bazini(a)	1,534,986	15,195,208	19.80	15,195,208
E Macleod(b)	1,534,986	15,195,208	19.80	15,195,208
N Rodol	662,258	103,961	0.14	103,961
S Craig	20,000	–	–	–
P Hagon	–	31,145	0.04	31,145
C Garston	–	126,315	0.16	126,315
K Sadler	–	31,145	0.04	31,145
J Collier *	–	–	–	–

* Appointed 1 September 2021.

In addition to the above holdings:
(a) 4,250,000 (2020: 4,250,000) shares are held by the wife of S Bazini
(b) 4,250,000 (2020: 4,250,000) shares are held by the wife of E Macleod

For details of the share option schemes see Note 23 on pages 82 to 83.
On 2 March 2022, Ward & Hagon Management Consulting LLP (a LLP of which Paul Hagon is a member) were granted options to subscribe for 200,000 ordinary shares of 25p in the Company at an exercise price of 127.5 pence per share (the "Option"), being the closing mid-market price on 1 March 2022 (the last practicable date prior to this announcement). The Option is exercisable between three and ten years from the date of grant. Save as mentioned above, there were no changes in the shareholdings of the directors between 31 December 2021 and the date of this report.

Service Contracts and non-executive directors' Letters of Appointment

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

Shareholder Approval of Directors' Remuneration Report

Shareholders are asked to approve this directors' Remuneration Report (excluding the directors' Remuneration Policy) for the year ended 31 December 2021 at the forthcoming Annual General Meeting. This resolution is advisory in nature.

Keith Sadler
Remuneration Committee Chairman

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 2021. The Corporate Governance statements on pages 24 to 50 form part of this report.

Going concern

The Company's going concern statement can be found in the Consolidated Financial Statements on pages 63 to 64.

Results and dividends

The directors recommend a final dividend of 3.5 pence per ordinary share to be paid on 5 July 2022 for the year ended 31 December 2021 which, when added to the interim dividend of 2.5 pence per share gives a total dividend for the year of 6.0 pence per share. In the year ended 31 December 2020 the final dividend per ordinary share was 3.0 pence per share and the interim dividend 2.8 pence per share, giving a total dividend for the year ended 31 December 2020 of 5.8 pence per share.

Directors

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

Non-executive Chairman

C Garston

Executive directors

S Bazini
E Macleod
N Rodol
S Craig
P Hagon

Non-executive directors

K Sadler
J Collier*

* Appointed 1 September 2021.

In accordance with the Articles, John Collier will stand for re-election and Samuel Bazini and Sally Craig will retire by rotation and stand for re-election at the forthcoming Annual General Meeting.

Likely Future developments

Details of the Group's future developments are contained in the Strategic report set out on pages 3 to 22.

Substantial shareholdings

The Group is aware of the following shareholdings of 3% or more in the share capital as at 31 December 2021:

Shareholder	Number of Shares	%
S Bazini (including connected parties)	19,445,208	25.34
E Macleod (including connected parties)	19,445,208	25.34
Schroders plc	12,671,208	16.51

Financial instruments

The Group's financial risk management objectives and policies are discussed in Note 25 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 Company has purchased and maintained directors' and officers' liability insurance for the board.

Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with UK adopted international accounting standards, and the Company financial statements in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards or United Kingdom Generally Accepted Accounting Practice;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

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

Employees

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

Engagement with Key Stakeholders

The key stakeholders for the Group are customers, distributors, suppliers, employees, shareholders and the community and environment in which we live. Whilst interactions take place at all levels of the Group, the directors are aware of the importance of the relationships with key stakeholders and feedback is utilised wherever possible to sustain these relationships in order to drive the long term success of the business. Face to face communications were largely curtailed in 2020 due to Covid-19 and, continued to impact to a lesser extent, in 2021. This has meant that many interactions with our stakeholders have taken place virtually. This has not only maintained, but in many instances enhanced our relationships with several of our key stakeholders and will be continued for the foreseeable future, alongside face-to-face interaction where this is key to maintaining and developing the stakeholder relationship. The effect of any such engagement on key decisions in the financial year to 31 December 2021 are set out below and detailed in the Section 172 statement.

Directors' Report (continued)

- **Customers**
  Feedback with trade customers is initially directed through dedicated account managers followed by engagement with our administration teams. For end user customers feedback is garnered through the peer to peer review site Yotpo, and social media such as Facebook, Twitter, Instagram and Pinterest. The Group's consumer customers frequently contact the Company by writing, by email, direct calls to the head office and through the website www.w7cosmetics.co.uk where they are also able to leave comments. We endeavour to respond to all customers who contact us in a swift and efficient manner typically by email or direct calls with all responses followed up to seek to achieve a positive outcome. During 2021 we have continued to support our trade customers wherever possible in connection with the ongoing impact of Covid-19. Trends in the cosmetic business are dynamic and swift reaction to feedback is also vital in introducing new products and updating our product range. New product development is made with to embrace a wide range of customers, for example our cosmetic range for China, which is specifically tailored for Chinese consumers, and excludes talc.

- **Distributors**
  We seek to strengthen our relationships with our distributors to garner feedback and provide support with regular meetings, attendance at trade shows (which, during 2021 have been largely virtual) and by maintaining close contact with them through our sales representatives. During 2021, we have maintained our relationships with our distributors and continued to support them wherever possible. Our distributors provide feedback on product suitability including in regions of the world where there may be cultural or other sensitivities in the product packaging and branding. Different regions may also call for particular colour mixes and shades and such feedback enables us to optimise and tailor products in these regions. The aim is to align the interests of the distributor with those of the Group.

- **Suppliers**
  Suppliers are visited at least annually and regular contact maintained at other times through trade shows, meetings and other close communications, which during 2021 have been largely virtual. The Group's principal suppliers are made to feel part of the organisation with an open and honest dialogue encouraged so that feedback can be communicated and a rapid response provided. The Group has an office in Hong Kong enabling more frequent visits and enhanced supplier contact. A strong relationship with the Group's suppliers is vital to the long term success of the Company.

- **Employees**
  The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group through a combination of meetings and electronic communication. The Group operates an open-door policy, everyone is known by name to the senior managers and executive directors with the Chief Executive Officer and the Managing Director engaging daily with employees across the business. Communication is encouraged both on an informal basis and through regular departmental meetings, where input from colleagues is welcomed in any area. Communication channels within the business are key and the open-door policy and regular meetings aid this.

  Where practicable, consideration is given to flexible working. This was increasingly important during 2020 to minimise the impact on our employees of the Covid-19 pandemic and lockdowns and the Group continues to allow flexibility wherever possible, with help with working from home and flexible working where practicable. Most employees have returned to on-site working but we have continued to support those employees for whom a complete return to full time on-site working is not practicable or desirable. As always, the well-being of our staff is paramount and particularly so during the current climate, with disruptions to schooling, sickness due to Covid and other factors, continuing throughout 2021 and into 2022.

- **Shareholders**
  The means of engagement with shareholders is detailed in the Corporate Governance Report. Throughout the financial year to 31 December 2021, there has been ongoing engagement with shareholders by the means described and in September 2021, after the announcement of the Company's Interim Results for the six months ended 30 June 2021, Warpaint's management hosted an online presentation and Q&A session which was open to all existing and prospective shareholders.

- **Community**
  Wherever possible we employ staff from the local area and encourage the use of car sharing and public transport to reduce the impact on local roads. We manage the times of our incoming and outgoing deliveries in order to limit any disturbance to residents in the local area. As a rule, we use local trade's people for goods and services creating employment and income within the area. We support a number of local and national charities and events each year. In addition, in 2021 the Company made a long-term commitment to support a young person's mental health charity, "iHeart", with a donation of funds and visits to schools in Greater London. "iHeart" supports young people by providing a range of specialised courses and programmes on mental health education, resilience and wellbeing.

- **Environment and Sustainability**
  The Board is cogniscant of its environmental responsibilities and has embedded environmental goals within its long-term strategy, with the aim of continually improving all aspects of its environmental performance, as far as economically feasible.

  Our new corporate offices at Iver, are housed in a 'green' building with an 'A' rated energy certificate with more efficient, sensor based low halogen lighting. The site has electric car charging points which our employees are able to use free of charge, which is aimed at encouraging our staff to adopt electric cars. We have recently moved our secondary UK W7 warehousing site from Leicester to a site closer to Iver. This will reduce the time and geographical distance required to transport stock between sites, thereby reducing the environmental impact of our business. We continue to improve the environmental performance of our sites, to reduce energy consumption and improve our energy efficiency throughout the business.

  In March 2022, the Group recruited a dedicated Packaging Technologist and Sustainability Lead for the Warpaint Group, to drive the business of the Group, along with all new products and packaging, towards more sustainable solutions wherever practicable. The UK Government's new plastic tax which is being introduced in 2022 will affect the business and this appointment will be crucial in managing both the cost implications and impact of this new regulatory environment, whilst also moving the Group to a more sustainable business model, wherever economically feasible.

  The Group is focused on the environmental impact of its products. All plastics have been removed from the outer packaging of our gifting and, practically all of, our all year-round products, and we have virtually eliminated the use of single use packaging in our products completely. We have proactively removed plastics from most of our outer packaging. The Group's product packaging therefore uses paper and cardboard wherever practicable, which enables the Group, the wholesaler and end user to recycle the waste effectively. This means that the business consumes considerable amounts of paper and cardboard, and the Group utilises a regular recycling collection service. This programme will be extended to utilise sustainable FSC or virgin or recycled packaging where feasible, and the Group aims to be a market leader in this area. The use of plastic in our product casings is sometimes practically unavoidable, but wherever possible, recyclable packaging is used. The use of plastics in our product casings has previously been challenging to remove, but with our current material developments and understanding, we are working hard testing and sampling new materials. Once this development is complete, these will be implemented to reduce and ensure recyclability for these plastic products before the new 'Extended Producer Responsibilities' regulations come in to force during 2024.

  All new Warpaint products are manufactured without parabens and the remaining existing products containing parabens are being reformulated. Our goal is for all Group products to be paraben free within the next 18-24 months.

  The Covid pandemic necessarily resulted in a reduction of travel within the Group, with business being conducted with customers and others virtually, where practicable. This has had a positive impact on the Group with business and trading relationships improving as a result. Hence, travel, and particularly air travel, will be restricted in future with customer, supplier, management and

Directors' Report (continued)

employee meetings being held virtually where feasible. This will not detract from the need to hold face to face meetings where this is conducive to a more productive relationship.

Streamline Energy and Carbon Reporting ("SECR")

Our SECR covers the energy consumption and Greenhouse Gas ("GHG") emissions for the period 1 January 2021 to 31 December 2021 (with comparatives shown for the same period in 2020). The financial year 2020 was the first year we were required to report under the SECR framework. The tables below show the energy and GHG emissions from business activities involving the combustion of gas, the purchase of electricity, and business mileage in both kWh and tCO_2e.

Financial Year 2021	**Energy Usage in kWh**	**GHG Emissions in tCO_2e**
Scope 1	137,693	25,220
Scope 2	294,702	62,574
Scope 3	38,933	8,947
Total for 2021	**471,328**	**96,741**
Intensity ratio (tCO_2e per m2)		**6.7**

Financial Year 2020	**Energy Usage in kWh**	**GHG Emissions in tCO_2e**
Scope 1	130,781	24,047
Scope 2	289,748	67,552
Scope 3	68,988	15,812
Total for 2020	**489,517**	**107,411**
Intensity ratio (tCO_2e per m2)		**7.3**

We have selected an intensity metric based on the energy consumption per square metre of area of our sites, this is of 6.7kg CO_2/m2 in the year (2020: 7.3kg CO_2/m_2).

We will use this ratio to monitor our energy efficiency performance over time.

The Group has implemented a range of energy efficiency measures at our sites in the year. These include an upgrade to internal and external LED lighting with motion sensors in all areas, a reduction in business travel by making more use of online meetings, improvements to heat insulation, and the installation of electric car charging points.

We continue to consider new technologies to improve the environmental performance of our sites, to reduce energy consumption and improve energy efficiency.

SECR Methodology

The figures quoted include meter readings for electricity and gas, and mileage expense reimbursement claims for business mileage. Conversion factors used are taken from the GOV.UK website https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021 and https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020 to calculate emissions for Scope 1,2 and 3. Refunded business mileage has been classed as Scope 3 as the Group do not own the assets.

SECR Materiality

The data provided by the Group has been determined as accurate and complete and covers the Group's operations in the United Kingdom, specifically the operations of the two UK subsidiaries, Warpaint Cosmetics (2014) Limited and Badgequo Limited.

Statement of disclosure to the auditors

So far as the directors are aware:

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

(b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the board

Neil Rodol
Chief Financial Officer

Independent Auditor's Report
to the members of Warpaint London PLC

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

We have audited the financial statements of Warpaint London Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of changes in equity, the consolidated and parent 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 UK adopted international accounting standards. 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- A critical evaluation of the Directors' assessment of the entity's ability to continue as a going concern, covering the period of at least 12 months from the date of approval of the financial statements by;
  - Evaluating the process the Directors followed to make their assessment, including confirming the assessment and underlying projections were prepared by appropriate individuals with sufficient knowledge of the detailed figures as well as an understanding of the Group's markets, strategies and risks;
  - Understanding, challenging and corroborating the key assumptions included in their cash flow forecasts against prior year, our knowledge of the business and independent market data, along with the findings from other areas of our audit;
  - Consideration of the susceptibility of the Group to any counterparty default or significant delay in settlement of payments. This included corroborating post year end sales values and cash receipts;
  - Evaluating via inquiry with the Directors, review of board minutes and review of external resources the potential impact of any a) macroeconomic influences (including inflationary pressures) and b) one-off cash outflows that may have been omitted from cash flow forecasts and assessing the impact these could have on future cash flows and cash reserves;
  - Assessing appropriateness of stress test scenarios, and challenging whether other reasonably possible scenarios could occur and considering whether the assumptions included within these were appropriate; In doing so we also challenged the mitigations provided by the Directors in the event of a reasonable downside scenario occurring; and
  - Considering the adequacy of the disclosures relating to going concern included within the annual report against the requirements of the accounting standards and consistency of the disclosures against the forecasts and going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report (continued)

to the members of Warpaint London PLC

Overview

Coverage	*92% (2020: 87%) of Group profit before tax*		
	96% (2020: 94%) of Group revenue		
	95% (2020: 98%) of Group total assets		
		2021	2020
Key audit matters	Impairment of intangible assets and goodwill	✔	✓
	Net realisable value of inventory	✔	✓
	Going concern	✔	✓
	Going concern is no longer considered to be a key audit matter as a result of the improved performance in the year and the resultant impact on our risk assessment.		
Materiality	*Group financial statements as a whole* We determined a materiality of £364,000 (2020: £245,000) based on 7% of profit before interest, tax, and amortisation (2020: 5% before interest, tax, amortisation and adjustments).		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group consists of three trading subgroups, all of which are run from the UK except for Marvin Leeds Marketing Services Inc. which is based in the USA. In establishing the overall approach to the Group audit, we completed full scope audits on the underlying subgroups and the parent company as significant components, except for Marvin Leeds Marketing Services Inc, on which we performed specific audit procedures on certain account balances. Marvin Leeds Marketing Services Inc. was not deemed to be a significant component therefore our work was tailored to focus on specific risk areas. All audit work was carried out by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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.

Aside from the going concern key audit matter identified above, we identified the following areas as the key audit matters relevant to our audit of the financial statements.

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment of intangible assets and goodwill (with reference to notes 1, 9 and 10)	The Directors perform annual impairment reviews of goodwill for all cash generating units ("CGUs"), which is carried at £7.3m in the Statement of Financial Position. Impairment reviews are also performed over the carrying value of other intangible assets of the CGUs (totalling £2.3m at 31 December 2021) where indicators of impairment were deemed to exist. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows, which form the basis of the Group's value in use calculation and assessment of the carrying value of goodwill and intangible asset values. We have determined as part of our risk assessment that the value-in-use calculation, determined by management with the assistance of an independent third party expert, used in the assessment of carrying value of goodwill and intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included the following: We considered management's impairment assessment and evaluated its compliance with the requirements of IAS 36 *"Impairment of Assets"* as follows: • We obtained management's impairment model and confirmed its mechanical accuracy; • We assessed management's allocation of assets for each CGU based on our knowledge of the Group and its operations and assessed whether it met the requirements of the applicable accounting standard; • We challenged management and their third party experts regarding the assumptions made in the model including forecast free cash flows, the long term growth rate applied and the discount rate used. We benchmarked the key assumptions applied against a variety of similar businesses and considered whether these fell within our acceptable ranges;

Key audit matter	How the scope of our audit addressed the key audit matter
Key assumptions include revenue, gross margin, and resultant cash flow forecast assumptions over the five year period from 31 December 2021. The valuation is also based on key assumptions in respect of the appropriate discount rates applied to the cash flows and long-term growth rates. As a result of their review, management did not identify any impairments.	We considered whether the revenue, and where relevant associated costs (including capital expenditure and working capital requirements), used to estimate free cash flows were reasonable in light of historic performance, macroeconomic conditions and current performance in FY22. This included challenge of key assumptions made by the Directors incorporating sensitivity analysis thereon. Specific areas of challenge included the projected economic growth and cost inflation, margin and known or probable changes in the business environment; • We used our own internal valuation experts to challenge management's determined discount rate and assessed the competence, independence and objectivity of the third party expert used by management in formulating the value-in-use model; and • Having assessed management's impairment review, we considered whether the disclosures presented in the financial statements were in line with the requirements of IAS 36 "*Impairment of Assets*". **Key observations:** Based on the procedures we performed, no issues arose from our work that suggested managements assessment of the impairment of goodwill and intangible assets was inappropriate.

Independent Auditor's Report (continued)
to the members of Warpaint London PLC

Key audit matter		How the scope of our audit addressed the key audit matter
Net realisable value of inventory (with reference to notes 1 and 13)	The Group has significant levels of inventory, and as such there is significant estimation uncertainty in the valuation of slow moving and obsolete inventories, some of which have a limited shelf life. There is also some uncertainty over changes in consumer preferences and spending patterns, which are primarily driven by wider trends in the fashion industry as well as seasonality, which could impact the saleability of inventory. There is a valuation risk associated with new product launches and judgement is required in forecasting demand which can lead to obsolete inventory if not performed accurately. Given the level of judgement and estimation involved by management, along with the materiality of the balance at £19.4m, the carrying value of inventory is considered to be a key audit matter.	Our procedures included the following: • We assessed whether inventory was valued appropriately at the lower of cost and net realisable value through testing a sample of items to their unit cost and then to the average sale price in the period leading up to and around the year end. Where there were indicators of negative margin or zero margin, we determined whether these balances were considered appropriately in the inventory provision balance; In addition, we considered 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. We assessed the appropriateness of the inventory provision by testing the completeness and accuracy of inventory ageing report as at 31 December 2021 by agreeing a sample to supporting documentation to check the ageing and value and checked the arithmetic accuracy of the overall calculation. We considered the inventory write off figure during the year and compared this to the Group's provision in the prior year to assess managements accuracy in determining the provision. • Furthermore, we tested the unprovided inventory balance, including new product launches, agreeing the sales volumes and values after the balance sheet date for a sample of inventory items to supporting documentation to determine if it was appropriate not to include these in the year end provision. • We also performed a number of counts at certain of the Group's inventory holding locations, and considered whether there were any indications of impairment or obsolescence. **Key observations:** Based on the procedures we performed, no issues arose from our work that suggested the net realisable value of inventories was inappropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2021 £	2020 £	**2021 £**	2020 £
Materiality	**364,000**	245,000	**327,600**	150,000
Basis for determining materiality	6% of profit before interest, tax, and amortisation (2020: 5% of profit before interest, tax, amortisation and adjustments).		90% (2020: 61%) of Group materiality	
Rationale for the benchmark applied	We considered adjusted profit before tax (profit before interest, tax, and amortisation) to be the most appropriate measure for the basis of materiality given the importance of underlying trading profit as a measure for users of the financial statements in assessing the performance of the Group.		Capped at 90% (2020:61%) of Group materiality given the assessment of the components aggregation risk.	
Performance materiality	**254,800**	183,750	**229,320**	112,500
Basis for determining performance materiality	70% (2020: 75%) of Group materiality, based on our overall risk assessment. In setting the level of performance materiality, we considered a number of factors including the control environment, our testing strategy, the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.		70% (2020: 75%) of Parent Company materiality, based on our overall risk assessment. In setting the level of performance materiality, we considered a number of factors including the control environment, our testing strategy, the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.	

Independent Auditor's Report (continued)

to the members of Warpaint London PLC

Component materiality

We set materiality for each component of the Group based on a percentage of between 70% and 90% (2020: 47% and 90%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component.

Component materiality ranged from £254,800 to £327,600 (2020: £116,000 to £221,000). In the audit of each component, we further applied performance materiality levels of 70% (2020: 75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £18,200 (2020: £12,250). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	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 by the Parent Company, 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, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the industry in which it operates. We determined that the most significant laws and regulations which are directly relevant to specific assertions in the financial statements are those related to the applicable accounting frameworks, the Companies Act 2006, industry specific regulation and employment and taxation laws and regulations in the jurisdictions in which the Group operates.

Our procedures included the following:

- We involved our internal taxation specialists to review the adequacy and appropriateness of tax provisioning;
- Agreement of the financial statement disclosures to underlying supporting documentation; and
- We understood how the Group is complying with those legal and regulatory frameworks, by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and reviewing summary of claims, litigations and regulatory inquiries that we have obtained from the Group's Compliance Officer.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from across the Group to understand where they considered there was a susceptibility to fraud. We identified fraud risks in relation to management override of controls and appropriateness of revenue recognition around the year end where incentive might exist to accelerate (or decelerate) earnings.

Our procedures included the following:

- We obtained an understanding the processes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how management monitors those processes and controls;
- We considered management's estimates and judgements applied in the preparation of the financial statements throughout the audit, individually and in aggregate, to evaluate whether there were any indications of bias in the application of these judgements. This included those set out in the key audit matters section of our report;
- Performed journal entry testing, focusing on journal entries containing defined characteristics and on large or unusual transactions based on our knowledge of the business by agreeing to supporting documentation; and
- Testing appropriateness of revenue recognised around year end, by agreeing a sample of revenue recognised to despatch notes to identify any revenue recognised in the incorrect period.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Parent 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 Parent 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.

David Perry

FCA (Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London, United Kingdom
25 April 2022

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 2021

	Notes	Year ended 31 December 2021 £'000	2020 £'000
Revenue	2	**50,003**	40,286
Cost of sales	2	**(33,095)**	(27,742)
Gross profit		**16,908**	12,544
Administrative expenses	4,5	**(13,095)**	(13,807)
Other operating income	3	**2**	361
Analysed as:			
Adjusted profit from operations[1]		**6,972**	2,514
Amortisation	4,10	**(2,394)**	(2,443)
Exceptional items	4	**(586)**	(317)
Share based payments	23	**(177)**	(656)
Profit/(loss) from operations		**3,815**	(902)
Finance expense	6	**(90)**	(212)
Profit/(loss) before tax		**3,725**	(1,114)
Tax (expense)/credit	7	**(895)**	111
Profit/(loss) for the year attributable to equity holders of the parent Company		**2,830**	(1,003)
Other comprehensive income:			
Item that will or may be reclassified to profit or loss:			
Exchange (loss)/gain on translation of foreign subsidiary		**(4)**	53
Total comprehensive income/(loss) attributable to equity holders of the parent Company , net of tax		**2,826**	(950)

Basic earnings/(loss) per share (pence)	28	**3.69**	(1.31)
Diluted earnings/(loss) per share (pence)	28	**3.68**	(1.31)

Note 1 – Adjusted profit from operations is calculated as earnings before interest, taxation, amortisation of intangible assets, any impairment costs relating to non-current assets, share based payments and exceptional items.

The notes on pages 63 to 89 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	As at 31 December 2021 £'000	2020 £'000
Non-current assets			
Goodwill	9	**7,274**	7,274
Intangibles	10	**2,260**	4,651
Property, plant, and equipment	11	**1,385**	1,149
Right-of-use assets	12	**3,073**	3,799
Deferred tax assets	19	**500**	581
Total non-current assets		**14,492**	17,454
Current assets			
Inventories	13	**18,139**	14,413
Trade and other receivables	14	**10,322**	9,187
Cash and cash equivalents	15	**4,072**	4,875
Derivative financial instruments	25	**545**	40
Total current assets		**33,078**	28,515
Total assets		**47,570**	45,969
Current liabilities			
Trade and other payables	16	**(6,293)**	(3,121)
Borrowings and lease liabilities	18	**(610)**	(914)
Derivative financial instruments	25	**–**	(400)
Corporation tax liability	7	**(1,050)**	(119)
Provisions	17	**(370)**	–
Total current liabilities		**(8,323)**	(4,554)
Non-current liabilities			
Borrowings and lease liabilities	18	**(2,537)**	(3,045)
Deferred tax liabilities	19	**(557)**	(1,000)
Total non-current liabilities		**(3,094)**	(4,045)
Total liabilities		**(11,417)**	(8,599)
NET ASSETS		**36,153**	37,370

The notes on pages 63 to 89 form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Equities			
Share capital	21	**19,188**	19,187
Share premium		**19,360**	19,359
Merger reserve		**(16,100)**	(16,100)
Foreign exchange reserve		**85**	89
Share option reserves	22	**1,810**	1,633
Retained earnings		**11,810**	13,202
TOTAL EQUITY		**36,153**	37,370

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

Neil Rodol
Chief Financial Officer

Date: 25 April 2022

The notes on pages 63 to 89 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2021

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Foreign exchange reserve £'000	Share option reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2020	19,187	19,359	(16,100)	36	977	16,354	39,813
Comprehensive Income for the year							
On translation of foreign subsidiary	–	–	–	53	–	–	53
Loss for the year	–	–	–	–	–	(1,003)	(1,003)
Total comprehensive income for the year	**–**	**–**	**–**	**53**	**–**	**(1,003)**	**(950)**
Transactions with owners							
Share based payment charge	–	–	–	–	656	–	656
Dividends paid	–	–	–	–	–	(2,149)	(2,149)
Total transactions with owners	**–**	**–**	**–**	**–**	**656**	**(2,149)**	**(1,493)**
As at 31 December 2020	**19,187**	**19,359**	**(16,100)**	**89**	**1,633**	**13,202**	**37,370**
Comprehensive Income for the year							
Equity shares issued	1	1	–	–	–	–	2
On translation of foreign subsidiary	–	–	–	(4)	–	–	(4)
Profit for the year	–	–	–	–	–	2,830	2,830
Total comprehensive income for the year	**1**	**1**	**–**	**(4)**	**–**	**2,830**	**2,828**
Transactions with owners							
Share based payment charge	–	–	–	–	177	–	177
Dividends paid	–	–	–	–	–	(4,222)	(4,222)
Total transactions with owners	**–**	**–**	**–**	**–**	**177**	**(4,222)**	**(4,045)**
As at 31 December 2021	**19,188**	**19,360**	**(16,100)**	**85**	**1,810**	**11,810**	**36,153**

Financial Statements

The notes on pages 63 to 89 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2021

	Notes	Year ended 31 December 2021 £'000	2020 £'000
Operating activities			
Profit/(loss) before tax		**3,725**	(1,114)
Finance expense	6	**90**	212
Amortisation of intangible assets	10	**2,394**	2,443
Depreciation of property, plant, and equipment	11/12	**1,338**	1,252
Loss on disposal of property, plant, and equipment		**–**	2
Share based payments	23	**177**	656
(Increase)/decrease in trade and other receivables		**(1,135)**	3,437
(Increase)/decrease in inventories	13	**(3,726)**	1,781
Increase/(decrease) in trade and other payables		**3,542**	(812)
Fair value (gain)/loss on derivative financial instruments		**(905)**	399
Other adjustments	18	**(84)**	–
Foreign exchange translation differences		**(4)**	53
Cash generated from operations		**5,412**	8,309
Tax paid		**(325)**	(853)
Net cash flows from operating activities		**5,087**	7,456
Investing activities			
Purchase of intangible assets	10	**(3)**	(12)
Purchase of property, plant, and equipment	11	**(596)**	(869)
Proceeds from sale of property, plant, and equipment		**–**	21
Net cash used in investing activities		**(599)**	(860)
Financing activities			
Repayment of borrowings	18	**(48)**	(90)
Lease payments	18	**(933)**	(810)
Repayment of stock and invoice finance facilities		**–**	(1,191)
Proceeds from issued share capital	21	**2**	–
Interest paid	6	**(90)**	(212)
Dividends	20	**(4,222)**	(2,149)
Net cash used in financing activities		**(5,291)**	(4,452)
Net (decrease)/increase in cash and cash equivalents		**(803)**	2,144
Cash and cash equivalents at beginning of period		**4,875**	2,731
Cash and cash equivalents at end of period	15	**4,072**	4,875
Cash and cash equivalents consist of:			
Cash and cash equivalents	15	**4,072**	4,875
		4,072	4,875

The notes on pages 63 to 89 form part of these financial statements.

Notes to the Consolidated Financial Statements

as at ended 31 December 2021

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 2021 were authorised for issue by the board of directors 25th April 2022.

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

The Group's financial statements have been prepared in accordance in accordance UK adopted international accounting standards and in conformity with the requirements of the Companies Act. The functional currency of the parent and its subsidiaries is pounds sterling because that is the currency of the primary economic environment in which the Group operates. The financial statements are also presented in pounds sterling. 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 accordance with UK adopted international accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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

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

Going concern

The Directors have concluded that it is reasonable to adopt a going concern basis in preparing the financial statements. This is based on a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of signing of these accounts. The Group made a statutory profit of £2.8 million in the year to 31 December 2021 (2020: £1.0 million loss) and had net current assets of £24.8 million at 31 December 2021 (2020: £24.0 million). The Group occasionally makes use in its Retra subsidiary of a £8.5 bank million facility that can be used for confidential invoice discounting and stock finance, the facility renews each year at the end of August. As at the year end £nil of the bank facility was utilised. At the 31st March 2022 the Group had cash of £2.3 million, £nil hire purchase and term debt having repaid these in full during 2021, and had used £nil of its bank facility.

The Directors have prepared forecasts covering the period to December 2023, built from the detailed Board-approved budget for 2022. The forecasts include a number of assumptions in relation to varying levels of sales revenue. Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. Excluding the potential impact of a pandemic, which is considered below, these risks include, but are not limited to, achieving forecast levels of sales and order intake, the impact on customer confidence as a result of general economic conditions and leaving the European Union, achieving forecast margin improvements, supply side price inflation, increases in freight costs, and the director's ability to implement cost saving initiatives in areas of discretionary spend where required. The forecasts used in the analysis of the Group's ability to continue in operational existence for the foreseeable future include both the base plan and downside scenarios which although the Group has no significant connections with Russia or Ukraine through its operations (no employees located there nor any major customers or suppliers in the region), include assumptions taking into account macro-economic potential indirect impacts of the events unfolding.

The Group's cash flow forecasts and projections, taking account of reasonable and possible changes in trading performance excluding the potential impact of a pandemic (which is considered below), offset by mitigating actions within the control of management including reductions in areas of discretionary spend, show that the Group will be able to operate comfortably through to the end of December 2023, and in Retra within the level of its facility.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

The uncertainty as to the future impact on the Group of a pandemic has been separately considered as part of the directors' consideration of the going concern basis of preparation. In the stress test scenario analysis performed, the directors have considered the reasonably plausible impact of another significant a pandemic outbreak on the Group's trading and cash flow forecasts, together with supply side cost inflation and further increases in freight costs.

In preparing this analysis, a number of scenarios were modelled with the benefit of experience having come through the three COVID-19 lockdowns in the UK in 2020. The scenarios modelled were all based on varying levels of sales revenue, including one that assumes no growth for 2022 and 2023 as a reasonable downside scenario, and more extreme falls in revenue of up to 30% in both years as a worst-case scenario. In each scenario, mitigating actions within the control of management have been modelled. Under each of the scenarios modelled, the Group has sufficient cash to meet its liabilities as they fall due and consequently, the directors believe that the Group has sufficient financial strength to withstand the possible disruption to its activities.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Revenue Recognition

Performance obligations and timing of revenue recognition

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

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

Where the Group has entered into distributor arrangements the satisfaction of performance obligations and transfer of control to the distributor is from the date of dispatch from either the Group's overseas supplier or from the Group's UK warehouse. Revenue is therefore recognised on the date of dispatch.

Customer loyalty

The Group operates a loyalty reward scheme for 'digital' customers where points are earned for products purchased online, with 10 points equivalent to £1. The Group accounts for loyalty points when redeemed as a sales discount on the sales transaction. A sales discount provision is recognised in the accounts in relation to points issued but not yet redeemed. When estimating this provision, the Group considers the likelihood that the customer will redeem the points. At the year-end there were 2.8 million points yet to be redeemed, leading to a provision of £14,000.

Under IFRS 15, volume rebates and early settlement discounts represent variable consideration and is estimated and recognised as a reduction to revenue as performance obligations are satisfied. Management recognises revenue based on the amount of estimated rebate to the extent that revenue is highly probably of not reversing. Management monitors this estimate at each reporting date and adjusts it as necessary.

Determining the transaction price

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

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

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

Allocating amounts to performance obligations

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

Practical Exemptions

The Group has taken advantage of the practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and

- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

Government Grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants which are revenue in nature are recognised on a systematic basis within Other operating income in the Statement of Comprehensive income over the period in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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 relating to a past event and where the amount of the obligation can be reliably estimated.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

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 and Alternative Performance Measures

Exceptional items which have been disclosed separately on the face of the Consolidated Statement of Comprehensive Income in order to summarise the underlying results. Exceptional items in the current period relate to restructuring costs and legal and professional fees. Neither 'underlying profit or loss' nor 'exceptional items' are defined by IFRS however the directors believe that the disclosures presented in this manner provide a clearer presentation of the underlying financial performance of the Group.

Alternative performance measures (APM's) are used by the Board to assess the Group's performance and are applied consistently from one period to the next. They therefore provide additional useful information for shareholders on the underlying performance and position of the Group. Additionally, adjusted profit from operations is used to determine adjusted EPS which is used as a key performance indicator for the Long-Term Incentive Plan (LTIP) and the Company Share Option Scheme (CSOP). These measures are not defined by IFRS and are not intended to be a substitute for IFRS measures. The Group presents underlying profit / (loss) from operations, profit / (loss) before tax and EPS which are calculated as the statutory measures stated before non-underlying items, including exceptional items, amortisation of intangible assets and share-based payments where applicable.

Underlying results are used in the day-to-day management of the Group. They represent statutory measures adjusted for items which could distort the understanding of performance and comparability year on year. Non-underlying items include the amortisation of intangible assets, exceptional items and share-based payments. Exceptional items are those items which the Group consider to be significant in nature and not in the normal course of business or are consistent with items that were treated as exceptional in prior periods.

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. Amortisation is provided on Licences and Website costs so as to write off the carrying value over the expected useful economic life of five years.

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 10.

Goodwill

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

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

Property, plant and equipment

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

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

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

Right-of-Use Assets

Right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset at the end of the lease, less any lease incentives received.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group also assesses the right-of-use asset for impairment when such indicators exist.

The right-of-use assets are included in a separate line within non-current assets on the Consolidated Balance Sheet

Financial assets

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

Fair value through profit or loss

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

Amortised cost

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

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

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

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

Financial liabilities

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

Fair value through profit or loss

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

Other financial liabilities

Other financial liabilities include the following items:

- Bank loans which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost ensuring the interest element of the borrowing is expensed over the repayment period at a constant rate.

- Trade payables, other borrowings and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

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.

Foreign currencies

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

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of property, plant and equipment in the jurisdictions from which it operates with a fixed periodic rent over the lease term. The Group has a total of 6 property leases and 1 plant and machinery lease.

Taxation

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

Current tax

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

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

Deferred taxation

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

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

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

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

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

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

Inventories

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

Operating segments

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

The Board considers that the Group's project activity constitutes the two operating and two reporting segments presented in Note 2, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

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

Earnings per share

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

Share Capital

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

Share-based payments

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

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

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

Dividends

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

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

1. Significant accounting policies (continued)

Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2021.

There were no new standards or interpretations impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2021, and which have given rise to changes in the Group's 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 and adopted by the EU but are not yet effective and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

		Effect annual periods beginning before or after
IFRS 3	Amendments updating a reference to the Conceptual Framework	1st January 2022
IFRS 4	Amendments regarding the expiry date of the deferral approach	1st January 2023
IFRS 9	Amendments resulting from the annual improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities)	1st January 2022
IFRS 17	Insurance contracts	1st January 2023
IAS 1	Amendments to defer the effective date of January 2020 amendments Amendments regarding the disclosure of accounting policies	1st January 2023
IAS 8	amendments regarding the definition of accounting estimates	1st January 2023
IAS 12	Amendments regarding deferred tax on leases and decommissioning obligations	1st January 2023
IAS 16	Amendments prohibiting a Company from deducting from the cost of property, plant and equipment amounts received from selling items while the Company is preparing the asset for its intended use	1st January 2022
IAS 37	Amendments regarding the costs to include when assessing whether a contract is onerous	1st January 2022

Critical accounting judgements and key sources of estimation uncertainty

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.

Key sources of estimation uncertainty

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. Inventory is carried at a value of £18,139,000 at the year end.

The Group makes a 50% provision for perishable items of stock that are greater than two years old. Should the Group increase the provision to 100% of perishable items that are greater than two years old, this would decrease profit by £382,955. The Group does not provide any provision on its non-perishable goods that are greater than two years old on the basis that the products have long shelf life. Should the Group increase the provision to 100% of non-perishable items that are greater than two years old, this would decrease profit by £112,370.

b) Valuation of goodwill

The assessment of the recoverable amount of goodwill allocated to Retra Holdings Limited, Marvin Leeds Marketing Services, Inc. and Treasured Scents Limited, as detailed in note 9, was based on fair value less costs to sell and value in use calculations which involved judgements over the assumptions applied. For Retra Holdings Limited, a 1% increase in the discount rate from 10.0% to 11.0% would reduce the value in use by approximately £3.9 million leaving headroom of £22.2 million above the carrying value. For Marvin Leeds Marketing Services, Inc., a 1% increase in the discount rate from 11.4% to 12.4% would reduce the value in use by approximately £0.8 million leaving headroom of £4.6 million above the carrying value. For Treasured Scents Limited, a 1% increase in the discount rate from 10% to 11% would reduce the value in use by approximately £0.3 million leaving headroom of £1.6 million above the carrying value. None of these scenarios would therefore result in any impairment of the goodwill.

c) Provision for content use and associated legal costs

The Group have recorded a provision of £370,000 at 31 December 2021 in respect of a claim relating to historic content use and associated legal costs (see note 17). The estimation of this provision is by its nature subject to some uncertainty, and whilst the Directors are satisfied that they have recorded their best estimate of the value of the potential outflow, it is nevertheless considered to be a key source of estimation uncertainty.

Critical accounting judgements

a) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

2. Segmental information

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

Year ended 31 December	2021 Group Brands £'000	2021 Close-out £'000	2021 Total £'000	2020 Group Brands £'000	2020 Close-out £'000	2020 Total £'000
Revenue	45,525	4,478	50,003	35,397	4,889	40,286
Cost of sales	(30,131)	(2,964)	(33,095)	(24,375)	(3,367)	(27,742)
Gross profit	15,394	1,514	16,908	11,022	1,522	12,544
Administrative expenses	(11,389)	(1,120)	(12,509)	(11,853)	(1,637)	(13,490)
Exceptional items	(586)	–	(586)	(279)	(38)	(317)
Other operating income	2	–	2	317	44	361
Segment result	3,421	394	3,815	(793)	(109)	(902)
Reconciliation of segment result to profit before tax:						
Segment result	3,421	394	3,815	(793)	(109)	(902)
Finance expense	(90)	–	(90)	(212)	–	(212)
Profit / (loss) before tax	3,331	394	3,725	(1,005)	(109)	(1,114)
Analysis of total revenue by geographical market:						
UK	21,358	3,965	25,323	16,909	4,233	21,142
Europe - Other	5,627	41	5,668	5,271	48	5,319
Europe - Spain	5,484	138	5,622	4,555	72	4,627
Europe - Denmark	6,741	8	6,749	4,987	171	5,158
Rest of World - USA	2,650	326	2,976	1,790	358	2,148
Rest of World - Australia and New Zealand	2,567	–	2,567	1,206	–	1,206
Rest of World - Other	1,098	–	1,098	679	7	686
Total	45,525	4,478	50,003	35,397	4,889	40,286

During the year ended 31 December 2021, revenues of approximately £5,033,980 were derived from a single external customer based in Denmark (10%). During the year ended 31 December 2020, there was no single material external customer from which revenues were derived exceeding 10% of annual sales.

The Directors are not able to attribute the Group's assets and liabilities by reportable business segment.

Analysis of non-current assets by geographical market.

Year ended 31 December	2021 UK £'000	2021 USA £'000	2021 Total £'000	2020 UK £'000	2020 USA £'000	2020 Total £'000
Goodwill	6,720	554	7,274	6,720	554	7,274
Customer lists	1,072	374	1,446	2,454	585	3,039
Brand	683	–	683	1,456	–	1,456
Patents	127	–	127	148	–	148
Website	4	–	4	8	–	8
Property, plant and equipment	1,379	6	1,385	1,142	7	1,149
Right of use assets	2,995	78	3,073	3,684	115	3,799
	12,980	1,012	13,992	15,612	1,261	16,873

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

3. Other operating income

	Year ended 31 December	
	2021	2020
	£'000	£'000
Government grants receivable	**–**	361
Interest received	**2**	–
	2	361

The Group did not apply for government support programs in 2021 (2020: £361,000).

Included within the consolidated statement of comprehensive income is £1,745 of interest received during the year ended 31 December 2021.

4. Operating profit / (loss)

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

	Year ended 31 December	
	2021	2020
	£'000	£'000
Foreign exchange (gain)/loss	**(614)**	420
Depreciation	**648**	385
Amortisation of right-of-use assets	**690**	867
Amortisation of intangible assets	**2,394**	2,443
Movement of inventories at net realisable value	**(5)**	312
Exceptional costs	**586**	317

The expenditure incurred within the table above falls wholly within Administrative expenses except movement of inventories which falls within cost of sales.

Exceptional costs

	Year ended 31 December	
	2021	2020
	£'000	£'000
Non-recurring legal and professional fees	**187**	76
Content use and associated legal fees (See note below)	**370**	–
Restructuring costs	**29**	241
	586	317

Non-recurring costs of £187,000 relate to the costs associated with a historic legal claim connected to an acquisition that the Group is pursuing.

The Group is currently in dispute with a third party relating to the historic use of content on our social media platforms, in the period 2018 through to early 2021. As a result of legal advice received as to the likely quantum of liability a provision of £370,000 at 31 December 2021 has been made as the directors' best estimate of the expected liability and associated legal costs. The payment and the restriction of content use will not affect the ongoing running of the business.

Restructuring costs of £29,000 are considered exceptional as they form the conclusion of a restructuring process that was initiated in the previous period.

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

4. Operating profit / (loss) (continued)

Auditor's Remuneration

Analysis of auditor's remuneration is as follows:

	Year ended 31 December	
	2021	2020
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Group's annual accounts	**64**	60
Fees payable to the Company's auditor for the audit of subsidiary companies	**101**	89
	165	149

Other services pursuant to legislation:		
Tax advice	**28**	26
Other assurance	**2**	3
Total non-audit fees	**30**	29

5. Staff costs

	Year ended 31 December	
	2021	2020
	£'000	£'000
Wages and salaries	**5,232**	4,889
Social security costs	**553**	407
Pension costs (note 26)	**90**	83
	5,875	5,379

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

	Year ended 31 December	
	2021	2020
	No.	No.
Directors	**7**	6
Administrative	**27**	27
Finance	**8**	7
Warehouse	**48**	53
Sales	**11**	8
Other	**12**	12
	113	113

	2021	2020
	£'000	£'000
Directors' remuneration, included in staff costs		
Salaries	**858**	838
Share based payments (note 23)	**117**	545
Benefits	**20**	18
Pension contributions	**4**	3
	999	1,404

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

5. Staff costs (continued)

Remuneration in respect of Directors was as follows:

	Salary/fees and bonus £'000	Share based payment £'000	Benefits £'000	Pension contribution £'000	**2021 £'000**	2020 £'000
Executive Directors						
S Bazini	230	40	11	–	**281**	480
E Macleod	230	40	9	–	**279**	478
N Rodol	185	36	–	2	**223**	244
S Craig	60	1	–	2	**63**	61
P Hagon	40	–	–	–	**40**	–
Non-executive Directors						
C Garston	60	–	–	–	**60**	60
K Sadler	40	–	–	–	**40**	40
P Hagon		–	–	–		40
J Collier	13	–	–	–	**13**	–
	858	**117**	**20**	**4**	**999**	**1,403**

	Number of Share options at January 2021	Number of Share options awarded in the year	Number of Share options lapsed in the year	**Number of Share options at December 2021**	Exercise Price	Earliest Exercise Date	Exercise Expiry Date
N Rodol	**412,258**	250,000	–	**662,258**	105,262 @237.5p	29/06/2020	29/06/2027
					306,996 @254.5p	21/09/2021	21/09/2028
					24,590 @122.0p	24/05/2024	24/05/2031
					225,410 @122.0p	24/05/2024	24/05/2031
S Bazini	**1,534,986**	–	–	**1,534,986**	254.5p	21/09/2021	21/09/2028
E Macleod	**1,534,986**	–	–	**1,534,986**	254.5p	21/09/2021	21/09/2028
S Craig	**20,000**		–	**20,000**	10,000 @237.5p	29/06/2020	29/06/2027
					10,000 @49.5p	20/05/2023	20/05/2030
Total share options	**3,502,230**	**250,000**	–	**3,752,230**			

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

6. Finance expense

	Year ended 31 December **2021 £'000**	2020 £'000
Loan interest	**5**	18
Lease liability interest (note 18)	**84**	143
Other interest	**1**	51
	90	212

Financial Statements

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

7. Income tax

	Year ended 31 December 2021 £'000	2020 £'000
Current tax expense		
Current tax on profits for the period	1,262	429
	1,262	429
Deferred tax expense		
Origination and reversal of temporary differences	(367)	(544)
Total tax expense / (credit)	895	(111)

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 2021 £'000	2020 £'000
Profit/(loss) for the period before taxation	3,725	(1,114)
Expected tax charge based on corporation tax rate of 19% (2020: 19%)	708	(212)
Expenses not deductible for tax purposes	74	29
Other adjustments	1	2
Different tax rates applied in overseas jurisdiction	30	(69)
Adjustments in relation to prior year	–	–
Adjustment to deferred tax	82	139
Total tax expense / (credit)	895	(111)

The UK corporation tax at the standard rate for the year is 19.0% (2020: 19.0%).

On 24 May 2021, the UK Government enacted that from 1 April 2023 the corporation tax rate would increase to 25% for companies with profits of over £250,000. A small profits rate will also be introduced for companies with profits of £50,000 or less so that they will continue to pay corporation tax at 19%. From this date companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective corporation tax rate.

Deferred tax balances in these financial statements account for the change in the UK Corporation Tax rate from 19% to 25% based on enacted legislation.

The Group's effective tax rate for the year is 24.03% (2020: 9.96%).

8. Subsidiaries

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

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

* indicates indirect interest

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

8. Subsidiaries (continued)

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

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

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

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

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

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

The registered office for Marvin Leeds Marketing Services, Inc. is 34W. 33rd St. – Suite 301, New York NY 10001.

The registered office for Warpaint Cosmetics (ROI) Limited is 6th Floor, South Bank House, Barrow Street, Dublin 4, D04 TR29.

9. Goodwill

	£'000
Cost	
At 1 January 2020	8,086
At 31 December 2020	8,086
At 1 January 2021	8,086
At 31 December 2021	**8,086**
Impairment	
At 1 January 2020	812
Impairment during the year	–
At 31 December 2020	812
At 1 January 2021	812
Impairment during the year	–
At 31 December 2021	**812**
Net book value	
At 31 December 2021	**7,274**
At 31 December 2020	7,274

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired business/CGU at the date of acquisition. The carrying value at 31 December 2021 includes Treasured Scents Limited (Close-out business) of £513,000, Retra Holdings Limited £6,207,000 and Marvin Leeds Marketing Services, Inc. £554,000.

Impairment is calculated by comparing the carrying amounts to the recoverable amount being the higher of value in use derived from discounted cash flow projections or the fair value less costs to sell. A CGU is deemed to be an individual division, and these have been Grouped together into similar classes for the purpose of formulating operating segments as reported in Note 2. Value in use calculations are based on a discounted cash flow model ("DCF") for the subsidiary, which discounts expected cash flows over a five-year period using a post tax discount rate of 10.0% (2020: 10.1%) for Retra Holdings Limited and 11.4% (2020: 8.0%) for Marvin Leeds Marketing Services, Inc. and 10% for Treasured Scents Limited. Cash flows beyond the five-year period are extrapolated using a long-term average growth rate of 2.0% (2020: 2.0%). The average growth rate beyond the five-year period is lower than current growth rates and is in line with Management's expectations for the business.

The fair value less costs to sell was based on a multiple of earnings less estimated costs to sell. Management have performed the annual impairment review as required by IAS 36 and have concluded that no impairment is indicated for Treasured Scents Limited, Retra Holdings Limited or Marvin Leeds Marketing Services, Inc. as the recoverable amount exceeds the carrying value.

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

9. Goodwill (continued)

Key Assumptions and sensitivity to changes in assumptions

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

- Sales and gross margin – for LMS this is based on forecasts incorporating a compound annual growth rate of 19.3% revenue over the next five years. For Retra, the compound annual growth rate over the next five years is anticipated to be 4.8%. For Treasured Scents the compound annual growth rate over the next five years is anticipated to be 4%. The gross margins for LMS, Retra and Treasured Scents are based on historical rates achieved.
- Administrative expenses are expected to increase by 18% in LMS, 23% in Retra and 5% in Treasured Scents in the year ending 31 December 2022 with 5% incremental increases annually thereafter.
- Discount Rate – pre-tax discount rate of 10.0% for Retra Holdings Limited, 11.4% for Marvin Leeds Marketing Services, Inc. and 10% for Treasured Scents reflects the Directors' estimate of an appropriate rate of return, considering the relevant risk factors.
- Growth Rate – used to extrapolate beyond the budget period (5 years from year end date) and for terminal values based on a long-term average growth rate of 2.0%.

Sensitivity to changes in assumptions

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

- 1.0% increase in the pre-tax discount rate;
- Reduction in the terminal growth rate to 1%;.and
- 10.0% reduction in projected operating cash flows

Reasonable changes to the assumptions used, considered in isolation, would not result in an impairment of goodwill for LMS, Retra or TS2014.

10. Intangible assets

	Brands £'000	Customer lists £'000	Patents £'000	Website £'000	Licences £'000	Total £'000
Cost						
At 1 January 2020	3,802	8,240	252	45	6	12,345
Additions	–	–	12	–	–	12
At 31 December 2020	3,802	8,240	264	45	6	12,357
Additions	–	–	3	–	–	3
At 31 December 2021	**3,802**	**8,240**	**267**	**45**	**6**	**12,360**
Accumulated amortisation						
At 1 January 2020	1,585	3,554	92	28	4	5,263
Charge for the year	765	1,644	24	9	1	2,443
At 31 December 2020	2,350	5,198	116	37	5	7,706
Charge for the year	765	1,600	24	4	1	2,394
At 31 December 2021	**3,115**	**6,798**	**140**	**41**	**6**	**10,100**
Net book value						
At 31 December 2021	**687**	**1,442**	**127**	**4**	**–**	**2,260**
At 31 December 2020	1,452	3,042	148	8	1	4,651

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

11. Property, plant and equipment

	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Costs					
At 1 January 2020	250	848	302	141	1,541
Additions	2	825	42	–	869
Disposals	–	–	–	(21)	(21)
At 31 December 2020	252	1,673	344	120	2,389
Additions	15	558	23	–	596
Transfer from right-of-use assets *	760	–	–	–	760
At 31 December 2021	**1,027**	**2,231**	**367**	**120**	**3,745**
Accumulated depreciation					
At 1 January 2020	59	528	181	89	857
Charge for year	41	257	70	17	385
On disposals	–	–	–	(2)	(2)
At 31 December 2020	100	785	251	104	1,240
Charge for year	189	410	39	11	649
Transfer from right-of-use assets *	471	–	–	–	471
At 31 December 2021	**760**	**1,195**	**290**	**115**	**2,360**
Net book value					
At 31 December 2021	**267**	**1,036**	**77**	**5**	**1,385**
At 31 December 2020	152	888	93	16	1,149

* Transferred from right of use assets category represents the return of ROU assets at expiry of the lease and where title is transferred to the Group.

12. Right-of-use assets

	Leasehold property £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Costs				
At 1 January 2020	4,960	760	77	5,797
Additions	139	–	–	139
Disposals	(303)	–	–	(303)
At 31 December 2020	4,796	760	77	5,633
Additions	253	–	–	253
Transfer to Plant and Machinery	–	(760)	–	(760)
At 31 December 2021	**5,049**	**–**	**77**	**5,126**
Accumulated amortisation				
At 1 January 2020	729	321	62	1,112
Charge for the year	702	150	15	867
Disposals	(145)	–	–	(145)
At 31 December 2020	1,286	471	77	1,834
Charge for the year	690	–	–	690
Transfer to Plant and Machinery	–	(471)	–	(471)
At 31 December 2021	**1,976**	**–**	**77**	**2,053**
Net Book Value				
At 31 December 2021	**3,073**	**–**	**–**	**3,073**
At 31 December 2020	3,510	289	–	3,799

Transferred from right of use assets category represents the return of ROU assets at expiry of the lease and where title is transferred to the Group.

The weighted average incremental borrowing rate applied to measure lease liabilities is 3.73% (2020: 3.61%) for leasehold property, nil% (2020: 0.88%) for plant and machinery and nil% (2020: 0.88%) for computer equipment.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

13. Inventories

	As at 31 December	
	2021	2020
	£'000	£'000
Finished goods	18,655	14,934
Provision for impairment	(516)	(521)
	18,139	14,413

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £28.56 million in the year ended 31 December 2021 (2020: £24.30 million).

14. Trade and other receivables

	As at 31 December	
	2021	2019
	£'000	£'000
Trade receivables – gross	8,755	7,750
Provision for impairment of trade receivables	(66)	(44)
Trade receivables – net	8,689	7,706
Other receivables	92	600
Prepayments and accrued income	1,541	881
Total	10,322	9,187

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

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

	As at 31 December	
	2021	2020
	£'000	£'000
Accumulated impairment losses at 1 January	44	44
Additional impairment losses recognised during the year, net	66	256
Amounts written off during the year as uncollectible	(44)	(256)
Accumulated impairment losses at 31 December	66	44

The impairment losses recognised during the year of £66,000 (2020: losses of £256,000 relating to the recovery of amounts previously written off as uncollectable).

Contract Liabilities

	As at 31 December	
	2021	2020
	£'000	£'000
At 1 January	292	321
Amounts included in contract liabilities that was recognised as revenue during the period	530	611
Amounts settled during the period	(603)	(640)
At 31 December	219	292

Contract liabilities are included within "trade and other receivables" in the face of the statement of financial position being settled net of the trade debtor balances. They arise from the Group's brand segment, which enter into contracts with customers for early settlement discounts, marketing contributions and volume rebates, because the invoiced amounts to customers at each balance sheet date do not consider the amount or rebate and discounts the customers are entitled to until settlement of the debtor balance at a certain time.

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

15. Cash and cash equivalents

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

	As at 31 December	
	2021	2020
	£'000	£'000
Cash at bank and in hand	**4,072**	4,875
	4,072	4,875

16. Trade and other payables

	As at 31 December	
	2021	2020
	£'000	£'000
Current		
Trade payables	**1,847**	1,439
Social security and other taxes	**293**	523
Other payables	**66**	32
Accruals and deferred income	**4,087**	1,127
Total	**6,293**	3,121

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

17. Provision

The Group is currently in dispute with a third party relating to the historic use of content on the Group's social media platforms in the period 2018 through to early 2021. As a result of legal advice received as to the likely quantum of liability a provision of £370,000 at 31 December 2021 has been made as the directors' best estimate of the expected liability and associated legal costs. The payment and the restriction of content use will not affect the ongoing running of the Group's business.

18. Loans and borrowings

	As at 31 December	
	2021	2020
	£'000	£'000
Bank loans		
Repayable within 1 year	**–**	48
	–	48
Lease liabilities		
Repayable within 1 year	**610**	866
Repayable within 2 – 5 years	**2,261**	2,375
Repayable in more than 5 years	**276**	670
	3,147	3,911
Total		
Repayable within 1 year	**610**	914
Repayable within 2 – 5 years	**2,261**	2,375
Repayable in more than 5 years	**276**	670
	3,147	3,959

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

18. Loans and borrowings (continued)

Undiscounted lease payments

	As at 31 December	
	2021	2020
	£'000	£'000
Lease liabilities		
Repayable within 1 year	**684**	995
Repayable within 2 – 5 years	**2.390**	2,599
Repayable in more than 5 years	**281**	506
Total	**3,355**	4,100

Lease liabilities

	As at 31 December			
	Leasehold property	**Plant and machinery**	**Computer equipment**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2020	4,326	398	16	**4,740**
Lease additions	139	–	–	139
Lease disposals	(158)	–	–	(158)
Interest expense	97	44	2	143
Lease payments	(745)	(190)	(18)	(953)
As at 31 December 2020	**3,659**	**252**	**–**	**3,911**
Lease additions	253	–	–	253
Interest expense	84	–	–	84
Lease payments	(765)	(252)	–	(1,017)
Adjustments	(84)			(84)
As at 31 December 2021	**3,147**	**–**	**–**	**3,147**

Nature of lease liabilities

The Group leases a number of properties in the United Kingdom and United States of America as well as certain items of plant and equipment.

An additional £1,061 (2020: £2,617) has been expensed to the statement of comprehensive income in respect of low value operating leases. Interest payments of £Nil (2020: £4,051) have also been expensed in respect of leases that expired during the period.

The interest rates expected are as follows:

	As at 31 December	
	2021	2020
	%	%
Finance loans	**7.0**	7.0
Bank loans	**8.75**	8.75
Invoice financing	**3.25**	3.25

Secured loans

The borrowings of the subsidiary companies, Retra Holdings Limited and Badgequo Limited, are secured by a debenture including a fixed charge over the present leasehold property, a first fixed charge over book and other debts and a first floating charge over all assets of those companies.

Bank borrowings include stock and invoice financing facilities amounting to £Nil (2020: £Nil). The carrying value of assets pledged as collateral approximates to £8,205,000 (2020: £8,763,000).

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rate of 19% - 25%.

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

	Deferred tax liability		Deferred tax asset	
	Year ended 31 December		Year ended 31 December	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Opening balance	**(1,000)**	(1,324)	**581**	374
Foreign exchange adjustment	**–**	3	**–**	(16)
Recognised in profit and loss:				
Tax expense	**443**	321	**(81)**	223
Closing balance	**(557)**	(1,000)	**500**	581

The deferred tax liability has arisen due to the timing difference on accelerated capital allowances amounting to £46,000 (2020: £42,000) and on the intangible assets acquired in a business combination amounting to £1,057,000 (2020: £1,057,000).

Deferred tax asset has arisen from taxable losses carry forward for LMS amounting to £1,995,000 (2020: £2,323,000) and recognised at a rate of 25%.

20. Dividends

Year to December 2021	**Paid**	**Amount per share**	**Total £'000**
Final dividend – 2020	05 July 21	3.0p	2,303
Interim dividend – 2021	11 Nov 21	2.5p	1,919
			4,222

Year to December 2020	**Paid**	**Amount per share**	**Total £'000**
Final dividend – 2019	–	–	–
Interim dividend – 2020	20 Nov 20	2.8p	2,149
			2,149

The Group has proposed a final dividend for the year ended 31 December 2021 of 3.5p per share.

21. Called up share capital

	No. of shares	
	£'000	£'000
Allotted and issued		
Ordinary shares of £0.25 each:		
At 1 January 2019 and 2020	76,749	19,187
Issued at 12 May 2021	3	1
At 31 December 2021	**76,752**	**19,188**

During the year, Company issued 3,230 equity shares with par value of £0.25 per share for £0.495 per share. Entire amount was paid in cash. No shares were allotted other than for cash.

All ordinary shares carry equal rights.

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

22. Reserves

Share premium

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

Retained earnings

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

Merger reserve

The merger reserve arose due to the Group reconstruction in 2016. The effect of the application of merger accounting principles on the merger reserve is that the share capital and other distributable reserves that existed in Warpaint Cosmetics Group Limited (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 1 January 2015. The corresponding entry being the merger reserve so the overall net assets as at the comparative dates are not affected.

Share option reserves

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

23. Share based payments

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

	Weighted average exercise price (pence) 2021	Number of options 2021	Weighted average exercise price (pence) 2020	Number of options 2020
Outstanding at the beginning of the year	**233.50**	**4,528,962**	253.45	4,088,302
Granted during the year	**122.0**	**400,000**	49.50	454,686
Expired during the year	**115.0**	**(68,132)**	83.36	(14,026)
Outstanding at the end of the year	**226.0**	**4,860,830**	233.50	4,528,962

The weighted average remaining contractual life of the options is 2.6 years (2020: 3.0 years).

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

	Exercise price Pence	Exercise period (years)	Number of options
29 June 2017	237.50	3	255,051
24 September 2018	254.50	5	3,837,462
20 May 2020	49.50	3	454,686
25 May 2021	122.0	3	400,000

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:

	25 May 2021	20 May 2020	24 Sept 18	29 June 17
Expected volatility	**78%**	76%	78%	64%
Expected life (years)	**3**	3	2-4	3
Risk-free interest rate	**0.15%**	0.01%	1.61%	0.38%
Expected dividend yield	**1.76%**	2.08%	1.53%	2%
Fair value per option (£)	**0.552**	0.213	0.422	0.963

On 25 May 2021, the Company granted, in aggregate, 400,000 share options with an exercise price of 122.0 pence per Ordinary share under a Company Share Option Plan (CSOP). Key persons discharging managerial responsibilities (PDMR's) were awarded a cumulative 400,000 share options as part of their annual remuneration and incentivisation packages. The options are exercisable for a period of seven years from 24 May 2024 and are not subject to the satisfaction of any performance criteria.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

23. Share based payments (continued)

On 20 May 2020, the Company granted, in aggregate, 454,686 share options with an exercise price of 49.50 pence per Ordinary share under a Company Share Option Plan (CSOP). Key persons discharging managerial responsibilities (PDMR's) were awarded a cumulative 112,106 share options as part of their annual remuneration and incentivisation packages. The remaining 342,580 options granted have been awarded to other members of the Company's workforce. No directors of the Company were awarded options in relation to this CSOP. The options are exercisable for a period of seven years from 20 May 2023, subject to the same performance conditions dictated by the Enterprise Management Incentive Scheme detailed below.

On 24 September 2018, share options with an exercise price of 254.50p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to certain directors.

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

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

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

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

On 29 June 2017, the Company granted in aggregate over 277,788 ordinary shares of 25 pence each in the Company under the Enterprise Management Incentive Scheme to all staff members, including the Company's Chief Financial Officer, Neil Rodol, but excluding all other directors. 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 £177,000 (2020: £656,000).

24. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Key management personnel are considered to be the directors. Compensation of the directors is disclosed in note 5 with the exception of dividends and drawings which are disclosed in note 19.

During 2021, Warpaint Cosmetics (2014) Limited paid rent in the sum of £120,000 (2020: £120,000) to Direct Supplies (2014) Group Limited, of which S Bazini is a director. At the year end the amount due to Direct Supplies (2014) Group Limited was £30,000 (2020: £Nil). During 2021, Warpaint Cosmetics (2014) Limited paid rent in the sum of £120,000 (2020: £120,000) to Trading Scents Group Limited, of which E Macleod is a director. At the year end the amount due to Trading Scents Group Limited was £30,000 (2020: £1,000).

During 2021, Retra Holdings Limited paid rent in the sum of £340,000 (2020: £340,000) to Warpaint Cosmetics Limited, of which E Macleod and S Bazini are directors.

As announced on 6 February 2020, the Group appointed Ward & Hagon, a provider of practical business solutions, to assist it in implementing its strategic growth plan. As a result of a successful initial period, whereby they assisted the Group in accessing new retail channels (including Tesco) the Group is pleased to announce that the Contract with Ward & Hagon, has been renewed for a further 12 months.

The Contract has a total annual value of £210,000 (which will be satisfied from the Group's operating cash flows), and includes the services of Paul Hagon, an executive director of the Company and Martyn Ward, amongst other members of the Ward & Hagon team. In addition, Ward & Hagon will be paid a commission of 3% on all sales generated from their introductions in the 12-month period from the point of first sale, and 4% on all sales generated from their introductions in the 12-month period thereafter.

The board is of the view that the services provided under the Contract represent value to shareholders through assisting the Group achieving is near term objectives. Accordingly, Ward & Hagon will continue to focus on assisting the Group access new retail channels both in the UK and overseas.

Paul Hagon, an executive director of Warpaint, is a member of Ward & Hagon. Accordingly, the renewal of the contract is classified as a related party transaction pursuant to the AIM Rules for Companies. The independent directors of the Company (being all executive and non-executive directors except Mr Hagon), having consulted with N+1 Singer, the Company's Nominated Adviser, consider that the terms of the Contract renewal are fair and reasonable insofar as the Company's shareholders are concerned.

Also note Ward & Hagon were paid £200,000 fees (2020: £200,0000, £20,010 commission (2020: £Nil) and expenses of £7,941 in 2021 (2020: £7,299).

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

25. 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, share premium and retained earnings totalling £50,358,000 as at 31 December 2021 (2020: £51,748,000) as shown in the statement of changes in equity.

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

	Year ended 31 December	
	2021	2020
	£'000	£'000
Financial assets		
Financial assets at amortised cost:		
Trade and other receivables	**8,781**	8,306
Financial assets measured at fair value through the profit and loss:		
Cash and cash equivalents	**4,072**	4,875
Derivative financial instruments	**545**	40
	13,398	13,221
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**(1,913)**	(2,598)
Loan and borrowings	**(3,147)**	(3,959)
Financial liabilities measured at fair value through the profit and loss:		
Derivative financial instruments	**–**	(400)
	(5,060)	(6,957)
Net	**8,338**	6,264

Financial assets measured at fair value through the profit and loss comprise cash and cash equivalents and derivative financial instruments.

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

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

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.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

25. Financial instruments (continued)

Interest rate risk

The Group's interest rate exposure arises mainly from its interest-bearing borrowings. Contractual agreements entered into a floating rate expose the entity to cash flow risk. Interest rate risk also arises on the Group's cash and cash equivalents. The Group does not enter into derivative transactions in order to hedge against its exposure to interest rate fluctuations. An increase in the rate of interest by 100 basis points would decrease profits by £18,000 (2020: £7,000) with an increase in profits by the same amount for a decrease in the rate of interest by 100 basis points.

Credit risk

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

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

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

The maximum exposure to credit risk in respect of the above is the carrying value of financial assets recorded in the financial statements. At 31 December 2021, the Group has trade receivables of £8,689,000 (2020: £7,706,000).

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

	As at 31 December	
	2021	2020
	£'000	£'000
Current	**4,811**	4,682
1 – 30 days	**2,006**	1,801
31 – 60 days	**1,516**	944
61 – 90 days	**183**	220
91 + days	**239**	103
Provision for impairment of trade receivables	**(66)**	(44)
Total trade receivables – net	**8,689**	7,706

The Directors are unaware of any factors affecting the recoverability of outstanding balances at 31 December 2021 and, consequently, no further provisions have been made for bad and doubtful debts.

The allowance for bad debts has been calculated using a 12-month lifetime expected credit loss model, as set out below, in accordance with IFRS 9.

	As at 31 December			As at 31 December		
	2021			2020		
	£'000	**%**	**£'000**	£'000	%	£'000
Current	**4,811**	**0.135**	**6**	4,682	0.135	6
1 – 30 days	**2,006**	**0.405**	**8**	1,801	0.405	7
31 – 60 days	**1,516**	**1.215**	**18**	944	1.215	11
61 – 90 days	**183**	**3.645**	**8**	220	3.645	8
91 + days	**239**	**10.935**	**26**	103	10.935	12
			66			44

Financial Statements

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

25. Financial instruments (continued)

Credit quality of financial assets

	As at 31 December	
	2021	2020
Trade receivables, gross (note 14):	£'000	£'000
Receivable from large companies	2,600	4,270
Receivable from small or medium-sized companies	2,211	412
Total neither past due nor impaired	4,811	4,682

	As at 31 December	
	2021	2020
Past due but not impaired:	£'000	£'000
Less than 30 days overdue	2,006	1,801
30 – 90 days overdue	1,872	1,223
Total past due but not impaired	3,878	3,024
Lifetime expected loss provision:		
Less than 30 days overdue	–	–
30 – 90 days overdue	66	44
Total lifetime expected loss provision (gross)	66	44
Less: Impairment provision	(66)	(44)
Total trade receivables, net of provision for impairment	8,689	7,706

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

	As at 31 December	
	2021	2020
	£'000	£'000
AAA rated	6	10
AA rated	1,723	303
A rated	–	1,115
BAA rated	2,343	3,447
Total cash and cash equivalents	4,072	4,875

For the purpose of the Group's 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 (2020: £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 monthly cash balance updates and weekly sales and margin reports marked against budget. At the start of each year the Board approve and adopt a budget and cash flow for the next 24 months, the CFO monitors these and reports any material divergences to the Board, so that management can ensure that sufficient funding is in place as it is required. The budget and cash flow are updated at the end of each year, for the following 24 months.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

25. Financial instruments (continued)

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

Year ended 31 December 2021	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	1,847	–	–	–	1,847
Other payables	66	–	–	–	66
Accruals	4,087	–	–	–	4,087
Loans and borrowings	342	342	2,390	281	3,355
	6,342	**342**	**2,390**	**281**	**9,355**

Year ended 31 December 2020	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	1,439	–	–	–	1,439
Other payables	32	–	–	–	32
Accruals	1,127	–	–	–	1,127
Loans and borrowings	497	498	2,599	506	4,100
	3,095	**498**	**2,599**	**506**	**6,698**

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

Foreign exchange risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposure in respect of cash and cash equivalents, trade receivables and trade payables, in particular with respect to the US dollar. The Group mitigates its foreign exchange risk by negotiating contracts with key suppliers that offer a flexible discount structure to offset any adverse foreign exchange movements and through the use of forward currency contracts. At December 2021, there were total sums of £939,000 (2020: £375,000) held in foreign currency.

The Group is also exposed to currency risk as the assets one of its subsidiary are denominated in US Dollars. At 31 December 2021, the net foreign liability was £0.7 million (2020: £0.4 million). Differences that arise from the translation of these assets from US dollar to sterling are recognised in other comprehensive income in the year and the cumulative effect as a separate component in equity. The Group does not hedge this translation exposure to its equity.

A 5% weakening of sterling would result in a £9,083 increase in reported profits and equity, while a 5% strengthening of sterling would result in £8,218 decrease in profits and equity.

Marvin Leeds Marketing Services, Inc.

		As at 31 December 2021 USD	2021 GBP
Profit After Tax		**233,587**	**172,570**
5% weakening of US dollar		**233,587**	**181,653**
	Increase profits		**9,083**
5% strengthening of US dollar		**233,587**	**164,352**
	Decrease profits		**(8,218)**

Foreign exchange risk

	2021 £'000	2020 £'000
Derivatives carried at fair value:		
Exchange gain/(loss) on forward foreign currency contracts	**545**	(360)

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

Notes to the Consolidated Financial Statements (continued)
as at ended 31 December 2021

25. Financial instruments (continued)

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.

Derivatives are recognised initially at their fair value at the date the derivative contract is entered intro and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the profit or loss unless the derivative is designed and effective as a hedging instrument, in which event the timing and recognition in the profit or loss depends on the nature of the hedging relationship.

As at 31 December 2021, the Group has 40 (2020: 42) forward foreign exchange contracts outstanding. Derivative financial instruments are carried at fair value.

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

a) Contracted exchange rate	2021 £/$	2020 £/$	2021 £/€	2020 £/€
3 months or less	1.3730	1.3353	–	1.1082
3 to 6 months	1.3866	1.3222	1.1645	1.1099
6 to 12 months	1.3813	1.3265	1.1491	1.1024

b) Contract value	2021 £/$	2020 £/$	2021 £/€	2020 £/€
3 months or less	728	2,620	–	947
3 to 6 months	13,159	7,008	1,072	2,479
6 to 12 months	5,447	3,766	2,259	1,133
	19,335	13,394	3,331	4,559

c) Foreign currency	2021 $'000	2020 $'000	2021 €'000	2020 €'000
3 months or less	1,000	3,500	–	1,050
3 to 6 months	18,250	9,254	1,250	2,750
6 to 12 months	7,535	5,000	2,600	1,250
	26,785	17,754	3,850	5,050

Fair value of financial assets and liabilities

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

26. Pension costs

The Group operates a defined contribution pension scheme. Contributions payable to the Group'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 £88,339 (2020: £91,019).

27. Controlling party

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

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

28. Earnings/(loss) per share

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

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

	2021	2020
Basic earnings/(loss) per share (pence)	**3.69**	(1.31)
Diluted earnings per/(loss) share (pence)	**3.68**	(1.31)

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

Earnings	2021 £'000	2020 £'000
Earnings for the purpose of basic earnings per share, being the net profit/(loss)	**2,830**	(1,003)

Number of shares	2021	2020
Weighted number of ordinary shares for the purpose of basic earnings per share	**76,751,187**	76,749,125
Potentially dilutive shares awarded	**62,699**	67,040
Weighted number of ordinary shares for the purpose of diluted earnings per share	**76,813,886**	76,816,165

The 4,542,988 share options (2020: 4,088,302) in issue throughout the year 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.

The additional 400,000 share options granted 25 May 2021 have been included in the computation of diluted earnings per share as the exercise price of the options is below the average annual market price of Ordinary shares.

29. Notes supporting statement of cash flows

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

	Non-current loans and borrowings £'000	Current loans and borrowings £'000	Total £'000
At 1 January 2020	3,864	2,205	6,069
Non-cash flows:	–	(19)	(19)
Cash flows	–	(2,091)	(2,091)
Reclassification from Non-current loans and borrowings to current loans and borrowings	(819)	819	–
At 31 December 2020	**3,045**	**914**	**3,959**
Non-cash flows:	–	169	169
Cash flows	–	(981)	(981)
Reclassification from Non-current loans and borrowings to current loans and borrowings	(508)	508	–
At 31 December 2021	**2,537**	**610**	**3,147**

30. Post balance sheet events

On 2 March 2022, Ward & Hagon Management Consulting LLP (an LLP of which Paul Hagon is a member) were granted options to subscribe for 200,000 ordinary shares of 25p in the Company at an exercise price of 127.5 pence per share (the "Option"), being the closing mid-market price on 1 March 2022 (the last practicable date prior to this announcement). The Option is exercisable between three and ten years from the date of grant. Save as mentioned above, there were no changes in the shareholdings of the directors between 31 December 2021 and the date of this report.

Company Statement of Financial Position
for the year ended 31 December 2021

Company number: 10261717

	Notes	2021 £'000	2020 £'000
Fixed assets			
Investments	3	**34,493**	35,833
		34,493	35,833
Current assets			
Trade and other receivables	4	**15,029**	14,732
Cash and cash equivalents		**3**	313
Total current assets		**15,032**	15,045
Current liabilities			
Trade and other payables	5	**(107)**	(184)
Corporation tax liability			–
Total current liabilities		**(107)**	(184)
Net current assets		**14,925**	14,861
Total assets less current liabilities		**49,418**	50,694
Capital and reserves			
Share capital	6	**19,188**	19,187
Share premium	7	**19,360**	19,359
Merger reserve	8	**1,895**	1,895
Share option reserve		**1,810**	1,633
Retained earnings		**7,165**	8,620
Shareholders' funds		**49,418**	50,694

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 £2,767,000 (2020: £5,092,000).

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

Neil Rodol
Chief Financial Officer

Date: 25 April 2022

The notes on pages 92 to 95 form part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2021

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Share Option Reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 31 December 2019	**19,187**	**19,359**	**1,895**	**977**	**5,677**	**47,095**
Share based payment charge	–	–	–	656	–	656
Profit for the year	–	–	–	–	5,092	5,092
Dividends paid	–	–	–	–	(2,149)	(2,149)
As at 31 December 2020	**19,187**	**19,359**	**1,895**	**1,633**	**8,620**	**50,694**
Equity shares issued	1	1	–	–	–	2
Share based payment charge	–	–	–	177	–	177
Profit for the year	–	–	–	–	2,767	2,767
Dividends paid	–	–	–	–	(4,222)	(4,222)
As at 31 December 2021	**19,188**	**19,360**	**1,895**	**1,810**	**7,165**	**49,418**

The notes on pages 92 to 95 form part of these financial statements.

Notes to the Company Financial Statements
for the year ended 31 December 2021

1. Significant accounting policies

Basis of preparation

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

The Company's financial statements are presented in GBP.

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

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

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

Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Share-based payments

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

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

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

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

Going Concern

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

Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and accounting estimates and assumptions

Impairment of investments

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

Recoverability of intercompany balances

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

Dividends

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

2. Staff costs

	Year ended 31 December	
	2021	2020
	£'000	£'000
Wages and salaries	**858**	288
Share based payments	**117**	545
Social security costs	**20**	18
Pension costs	**4**	3
	999	854

Notes to the Company Financial Statements (continued)

for the year ended 31 December 2021

2. Staff costs (continued)

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

	Year ended 31 December	
	2021	2020
	No.	No.
Directors	7	6
	7	6

	2021	2020
Directors' remuneration, included in staff costs	£'000	£'000
Salaries	858	288
Share based payments	117	544
	975	832

The directors are the only key management personnel.

3. Investments

	At 31 December 2020
	£'000
Cost	
At January 2021	35,833
At December 2021	35,833
Impairment	
At January 2021	
Impairment charge	1,340
At December 2021	1,340
Net book value	
At 31 December 2021	**34,493**
At 31 December 2020	35,833

Details of subsidiaries are shown in note 8 of the Consolidated Financial Statements.

Investments represents the fair value of the Company's investment in its subsidiaries as detailed in Note 8 to the consolidated financial statements.

Impairment is calculated by comparing the carrying amounts to the recoverable amount being the higher of value in use derived from discounted cash flow projections or the fair value less costs to sell. A CGU is deemed to be an individual division, and these have been Grouped together into similar classes for the purpose of formulating operating segments as reported in Note 2 of the consolidated financial statements. 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 post tax discount rate of 10.8% (2020: 10.1%) for Retra Holdings Limited and 11.4% (2020: 8.0%) for Marvin Leeds Marketing Services, Inc. Cash flows beyond the five-year period are extrapolated using a long-term average growth rate of 2.0% (2020: 2.0%). The average growth rate beyond the five-year period is lower than current growth rates and is in line with Management's expectations for the business.

The fair value less costs to sell was based on a multiple of earnings less estimated costs to sell. Management have performed the annual impairment review as required by IAS 36 and have concluded that no impairment is indicated for Retra Holdings Limited or Marvin Leeds Marketing Services, Inc. as the recoverable amount exceeds the carrying value.

An impairment provision of £1,339,900 has been recognised against the Company's investment in Treasured Scents Limited as the trading activity in that Company has been hived across to Warpaint Cosmetics (2014) Limited leaving Treasured Scents Limited dormant.

Impairment review of investments in subsidiaries is sensitive to changes in the key assumptions used. Details of sensitivity performed by Director's is highlighted in Note 9 of Consolidated Financial Statements. Reasonable changes to the assumptions used, considered in isolation, would not result in an impairment of investments.

4. Debtors

	2021	2020
	£'000	£'000
Due from Group undertakings	14,922	14,634
Prepayments and accrued income	107	98
	15,029	14,732

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

5. Creditors due within one year

	2021	2020
	£'000	£'000
Trade payables	8	19
Other taxation and social security	70	25
Accruals and deferred income	29	140
	107	184

6. Called up share capital

	No of shares	
	£'000	£'000
Allotted and issued		
Ordinary shares of £0.25 each		
At 1 January 2020 and 2021	76,749	19,187
Issued at 12 May 2021	3	1
At 31 December 2021	**76,752**	**19,188**

All ordinary shares carry equal rights.

7. Share premium

	2021	2020
	£'000	£'000
Share premium	19,360	19,359

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

8. Other reserves

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

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

Financial Statements

Notes to the Company Financial Statements (continued)
for the year ended 31 December 2021

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 24 of the Consolidated Financial Statements.

10. Share based payments

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

	Weighted average exercise price (pence) 2021	Number of options 2021	Weighted average exercise price (pence) 2020	Number of options 2020
Outstanding at the beginning of the year	233.03	4,528,962	253.45	4,088,302
Granted during the year	122.0	400,000	49.50	454,686
Expired during the year	115.0	(68,132)	83.36	(14,026)
Outstanding at the end of the year	**226.0**	**4,860,830**	**233.50**	**4,528,962**

The weighted average remaining contractual life of the options is 2.6 years (2020: 3.0 years).

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

	Exercise price Pence	Exercise period (years)	Number of options
29 June 2017	237.50	3	255,051
24 September 2018	254.50	5	3,837,462
20 May 2020	49.50	7	454,686
25 May 2021	122.0	3	400,000

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:

	25 May 21	20 May 20	24 Sept 18	29 June 17
Expected volatility	78%	76%	78%	64%
Expected life (years)	3	3	2-4	3
Risk-free interest rate	0.15%	0.01%	1.61%	0.38%
Expected dividend yield	1.76%	2.08%	1.53%	2%
Fair value per option (£)	0.552	0.213	0.422	0.963

On 25 May 2021, the Company granted, in aggregate, 400,000 share options with an exercise price of 122.0 pence per Ordinary share under a Company Share Option Plan (CSOP). Key persons discharging managerial responsibilities (PDMR's) were awarded a cumulative 400,000 share options as part of their annual remuneration and incentivisation packages. The options are exercisable for a period of seven years from 24 May 2024 and are not subject to the satisfaction of any performance criteria.

On 20 May 2020, the Company granted, in aggregate, 454,686 share options with an exercise price of 49.50 pence per Ordinary share under a Company Share Option Plan (CSOP). Key persons discharging managerial responsibilities (PDMR's) were awarded a cumulative 112,106 share options as part of their annual remuneration and incentivisation packages. The remaining 342,580 options granted have been awarded to other members of the Company's workforce. No directors of the Company were awarded options in relation to this CSOP. The options are exercisable for a period of seven years from 20 May 2023, subject to the same performance conditions dictated by the Enterprise Management Incentive Scheme detailed below.

On 24 September 2018, share options with an exercise price of 254.50p, equal to the closing mid-market value immediately prior to the date of grant, and subject to the achievement of demanding Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") performance conditions measured over a period of up to 5 years were granted to certain directors.

Notes to the Consolidated Financial Statements (continued)

as at ended 31 December 2021

10. Share based payments (continued)

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

- 50% of the award is subject to an adjusted EPS growth performance condition. One third of this portion of the award will be tested and vest after three, four and five years. Vesting is based on adjusted EPS in the years ending Dec 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 12.5% compound annual EPS growth and full vesting at 22.5% compound annual EPS growth, measured from 31 December 2017.
- 50% of the award is subject to an absolute TSR performance condition tested following the announcement of results for the years ending 31 December 2020, 2021 and 2022. Threshold vesting of 20% of the award is achieved at 8% compound annual TSR and straight line vesting up to 100% vesting at 18% compound annual TSR, measured from 31 December 2017.

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

On 29 June 2017, the Company granted in aggregate over 277,788 ordinary shares of 25 pence each in the Company under the Enterprise Management Incentive Scheme to all staff members, including the Company's Chief Financial Officer, Neil Rodol, but excluding all other directors. 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 £117,000 (2020: £544,000).

Officers and Professional Advisers

Directors	C Garston	Chairman
	S Bazini	Chief Executive Officer
	E Macleod	Managing Director
	N Rodol	Chief Financial Officer
	S Craig	General Counsel & Company Secretary
	P Hagon	Executive Director
	K Sadler	Non-Executive Director
	J Collier	Non-Executive Director
Registered Office	Units B&C Orbital Forty Six The Ridgeway Trading Estate Iver, Buckinghamshire SL0 9HW	
Company Number	10261717	
Nominated Adviser & Joint Broker	Singer Capital Markets Advisory LLP 1 Bartholomew Lane London EC2N 2AX	
Joint Broker	Shore Capital Stockbrokers Limited Cassini House 57 St James's Street London, SW1A 1LD	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Registrars	Neville Registrars Limited Neville House Steel Park Road Halesowen West Midlands, B62 8HD	
Financial PR and IR	IFC Advisory Limited Birchin Court, 20 Birchin Lane London, EC3V 9DU	

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