

23 September 2020

Warpaint London PLC
("Warpaint", the "Company" or the "Group")

Interim Results for the six months ended 30 June 2020

Warpaint London plc (AIM: W7L), the specialist supplier of colour cosmetics and owner of the W7 and Technic brands is pleased to announce its unaudited interim results for the six months ended 30 June 2020.

Financial Highlights

- Sales reduced 29% to £13.5 million in H1 2020 (H1 2019: £18.9 million) as a result of the Covid-19 restrictions in the UK and internationally
 - UK revenue decreased by 12% to £6.8 million (H1 2019: £7.7 million)
 - International revenue decreased by 40% to £6.7 million (H1 2019: £11.2 million)
- Gross profit margin increased to 35.1% (H1 2019: 34.9%)
- Adjusted profit from operations of £0.4* million (H1 2019: £1.3* million). The majority of this movement can be attributed to:
 - Overall reduction in gross profit of £1.9 million due to lost sales from the Covid-19 pandemic;
 - Reduction in overheads of £0.2 million; and
 - FX gain of £0.6 million (H1 2019: FX loss £0.1 million)
- Cash generated from operating activities of £2.3 million (H1 2019: £1.3 million)
- Cash of £3.8 million at 30 June 2020 (30 June 2019: £3.7 million)
- The board is declaring an interim dividend of 2.8p per share, maintaining the prior year interim dividend of 1.5p per share, together with a one off additional 1.3p per share, to reflect that no final dividend was declared for 2019. This dividend is being declared against a background of good cash control and continued cash generation, along with the robust response of the business through the Covid-19 pandemic

* Adjusted for £0.2 million of exceptional costs (2019: Nil), £1.2 million of amortisation of intangible assets (2019: £1.2 million), and share based payments of £0.3 million (2019: £0.1 million). Adjusted numbers are close to the underlying cash flow performance of the business which is regularly monitored and measured by management.

Operational Highlights

- A core range of 100+ W7 products was initially displayed in 56 Tesco Extra stores across the UK and this has now increased to 190 products. Additionally, an impulse range has been developed and is now on display in 41 Tesco Express stores, taking the total number of Tesco stores selling our product to [97]. Sales in Tesco stores have exceeded the directors' expectations
- Approximately 100 exclusive Body Collection branded products, designed in partnership with wilko, are now stocked in 355 wilko stores and over 115 different Technic branded products are stocked in 189 wilko stores. The Group's products are displayed on bespoke display stands in prime in-store locations and are also sold by wilko.com. In addition, a range of Technic and Body Collection gift sets will be stocked in wilko stores from October 2020 for the Christmas shopping period
- Despite Covid-19, Retra has a significant Christmas order book underpinning H2 outlook. Retra's order book was £8.4 million at 30 June 2020 (30 June 2019: £10.1 million)
- Action taken in the US at LMS to reduce cost base, improve margin and provide a full range of Group products and brands

- The Group's expansion strategy continues with active discussions being held with additional major retailers in the UK and overseas
- Online strategy accelerated in the UK and the US in response to the Covid-19 pandemic
- The Group reacted swiftly to the Covid-19 crisis, quickly formulating a plan of action, and then executing it successfully

Post-Period End Highlights and Outlook

- Sales for H2 2020 have recovered well after the Covid-19 lockdown and are steadily approaching the Company's monthly budget levels set for 2020 prior to the Covid-19 pandemic
- For the eight months to 31 August 2020 the Company had unaudited sales of £22.8 million and adjusted profit from operations** of £0.7 million
- In response to the pandemic, at each board meeting various scenarios have been modelled based on sales for the full year being down against our internal budget for 2020. Each of these scenarios forecasts a positive EBITDA for the year
- The board's current expectation is that sales for the year ending 31 December 2020 will be approximately £37 million, which should generate adjusted profit from operations** in excess of £2.0 million, on the assumption that there is no material decline in trading conditions as a result of additional Covid-19 related lockdown measures nor any adverse exchange rate movements

** Adjusted for exceptional costs, amortisation of intangible assets, and share based payments. Adjusted numbers are close to the underlying cash flow performance of the business which is regularly monitored and measured by management.

Commenting, Sam Bazini Chief Executive, said: "The first half of 2020 has been a difficult period for everyone, but we believe that with the actions taken along with the Group's current financial resources, we are well placed to weather the Covid-19 crisis. We have a global business and the capacity, expertise and strategy to drive our future growth.

"Before the Covid-19 crisis the business was trading well, with higher sales, stronger margins, reduced overheads and higher net profit than budgeted, demonstrating that our business model is strong and that our brands are resonating with customers and consumers. In the short term, Covid-19 has had an impact on our financial performance, resulting in lower than budgeted sales and profits. However, as we start the second half of 2020, sales are beginning to return towards budgeted levels set prior to the Covid-19 pandemic and we are well positioned to take advantage of improving market conditions.

"We continue to monitor the impact of the Covid-19 pandemic, ensuring that we look after customers and staff and take any additional steps if required. Covid-19 will undoubtedly influence our short-term business decisions, however our focus for the remainder of the year and going forward remains on the delivery of our strategic plan which, the board has reviewed and considered in light of Covid-19 and believe remains appropriate and correct.

"With our strong balance sheet (including net cash of £3.8 million) and a positive cashflow outlook for H2 2020, prospects remain encouraging notwithstanding the effects of the Covid-19 pandemic. We have seen a strong sales recovery in the UK since the easing of the Covid-19 lockdowns, with recent sales approaching the Company's budget set at the beginning of the year. This has been helped by the growing exposure and sales from our W7 brand launch into Tesco in 2020, and the recent launch in September into wilko of Technic and Body Collection."

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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Warpaint London plc

Warpaint is made up of two divisions.

The largest division 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, this division supplies own brand white label cosmetics produced for several major high street retailers. The Group also sells cosmetics using our other own brand names of Man'sstuff, Body Collection, Vintage, Very Vegan, and Chit Chat.

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

Chief Executive's Review

In the first half of 2020 sales of our branded colour cosmetics accounted for 82% of revenue (H1 2019: 82%). The sale of colour cosmetics by the Group under its own brands remains its primary strategic focus, with significant sales of Christmas gifting expected to be delivered in the second half of the year. As in 2019, we expect overall Group earnings to be weighted to the second half of this financial year, and even more so this year as the business recovers strongly from the Covid-19 lockdowns.

Our strategy of producing a wide range of high quality cosmetics at an affordable price has remained our key focus and we are very pleased with the reaction that our expanding product range received at the start of this year, for both our W7 and Technic own brands.

W7

The Group's lead brand remains W7, with sales in H1 2020 accounting for 50% of total revenue (H1 2019: 55%). In the UK, W7 revenues were down 18% in H1 2020 compared to H1 2019. This was due to the tough trading conditions on the UK high street, driven primarily by the Covid-19 pandemic, with certain retailers struggling to survive in their present form, particularly given the lockdown in Q2 2020. We have implemented a strategy in the UK which we believe will increase sales of the W7 brand in the medium term and are seeing the fruits of this strategy with the recent successful launch of the W7 brand into Tesco.

Internationally W7 sales were down in all reported regions due to the strict lockdowns imposed because of the Covid-19 pandemic. In Europe sales fell by 43% compared to H1 2019, in the US sales fell by 61% compared to H1 2019, and in the rest of the world sales fell by 36% compared to H1 2019.

However, we have seen a strong recovery for W7 in the UK, Europe and the rest of the world since the easing of Covid-19 lockdowns, with sales in recent months in line with the board's budget for the year, set prior to the Covid-19 pandemic. In the US, some of our customers remain closed or partially open from state to state, and some are in distress. As a consequence we have accelerated our online sales strategy for the US via Amazon FBA (Fulfilment by Amazon).

Technic

Since the acquisition of Retra Holdings Limited ("Retra") and its Technic brand in November 2017, we have taken steps to improve the sales of the all year round cosmetics sold under the Technic brand, and to make the Retra business profitable throughout the whole year, not only in the second half when Christmas gifting is delivered.

Sales of Technic in H1 2020 were 30% of total Group revenue (H1 2019: 25%). In H1 2020, UK revenues of Technic were down 30% for similar reasons to those experienced across other Group brands. Implementing our strategy in the UK to grow sales in the medium term has led to the successful launch in September of a range of Technic and Body Collection branded products in wilko, with Christmas gifting to be delivered to wilko in October 2020.

In Europe sales fell by 17% compared to H1 2019 and in the rest of the world sales also fell by 17% compared to H1 2019. As with W7, sales fell in these regions due to the strict lockdowns. In the US, sales increased by 46% compared to H1 2019, albeit the sales were small in the context of the Group as a whole.

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 (H1 2019: 2%).

As with W7 we have seen a strong sales recovery for Technic in the UK, Europe and the rest of the world since the easing of the Covid-19 lockdowns, with recent sales in line with the board's budget set at the beginning of 2020.

Close-out

The close-out division in the first half of 2020 represented 18% of the overall revenue of the Group (H1 2019: 18%). Whilst not a core focus, this side of the business provides a significant and profitable source of intelligence in the colour cosmetics market and access to new market trends.

New Product Development

New product development remains a crucial part of the Group's activity. For a brand like W7, it is essential to provide new products that are on trend, fast to market and meets the consumer's quickly changing needs. A healthy pipeline of new products is the continual focus of our growing New Product Development Team. It ensures great products are launched quickly into the market, something our customers demand and expect from us. For example, the Group launched in the first half of this year its W7 skincare range which has been extremely well received, with many positive online reviews.

Using manufacturing partners in China and Europe for our Group branded products, gives us the flexibility to choose those manufacturers we feel deliver the best product quickly, for the best price, and meet our legal and ethical compliance requirements. This process is supported by the Group's Hong Kong based subsidiary sourcing office (acquired as part of the Retra transaction) 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.

e-Commerce

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

More recently we have listed our brands in the UK and the US on Amazon FBA which has helped accelerate our online sales. To date this has been a soft launch with little marketing spend applied. The strategy is to gradually increase the marketing spend in order to generate further sales momentum. In H1 2020 online sales were £0.15 million (H1 2019: £0.08 million).

US Operations

The Group's US distributor, LMS is now fully integrated into the Group. Prior to its acquisition in August 2018 two thirds of LMS revenue was from distributing W7 products, the remainder being the sale of other branded cosmetics through its close-out activities. Since the acquisition the focus has been more on own brands and leveraging the marketing and other synergies contributed at a Group level. The US is the largest colour cosmetics market in the world and developing sales there is a strategic goal for the growth of our brands. As reported in our Annual Report for 2019, we implemented a number of measures to improve margins in the US business, including changing our third party warehousing arrangements to reduce costs and by restructuring the staff levels in the US, saving US\$0.4 million in 2020. Nevertheless, despite these actions, the impact of the Covid-19 lockdown on the US business has been significant, and therefore we are re-evaluating our strategy for the US and stepping up our online presence.

Marketing and PR

In 2019 we launched several ground-breaking campaigns in both the traditional and social media environment. Our award winning "Here Come the Boys" campaign gained enormous social media coverage and was also featured by the Daily Mail, Good Morning America and ABC News. The W7 brand was also a

key part of the “Being Reuben” television documentary airing on Quest Red in December 2019 and in the US earlier this year. Social media engagement continues to grow across all platforms and we have also invested in a new peer to peer review system and a loyalty programme.

The Covid-19 Pandemic

Covid-19 has had a significant impact on people, societies and of course businesses and customers, and Warpaint is no exception. At the beginning of the outbreak in China, our initial focus was around the supply of our colour cosmetic products sourced in China, this being the main region of supply to the Group. When the UK went into lockdown, China had already started to return to normal operating levels and we have experienced no impact to our inventory levels in H1 2020, thereby maintaining full availability of our product.

As countries began to lock down first in Europe, then the UK and US, consumer demand switched to essential items and food, and away from colour cosmetics. At the same time, many of our customers who are not in the essential services sector had closed down temporarily, resulting in the cancellation, reduction or deferment of their orders. More recently we have seen a gradual improvement in orders from customers in all regions apart from the US, with performance returning to our pre-Covid-19 expectations.

The wellbeing of Warpaint staff remains our primary concern, whilst also continuing to trade to support the durability of our business for stakeholders. We have taken significant preventative measures across our business, both to protect the health of our staff and to minimise operational disruption. At the start of the pandemic we reduced discretionary spend, those staff not working because of the decrease in business activity were furloughed and with the approval from our landlords we deferred rental payments. Those staff still working to maintain operations did so wherever possible from home, and for those staff working in our offices and warehouses social distancing practices were put in place to ensure their safety. More recently, as sales and orders have returned to expected levels discretionary spend (apart from PR, exhibitions and travel) has returned to budgeted levels, nearly all staff have returned to work full time and rental payments have recommenced. In addition, all taxation in the Group is paid and up to date (PAYE, VAT and Corporation Tax). The Group has utilised no government Covid-19 related support other than the UK Government’s furlough scheme, which was used for a short period of time and where effected staff continued to be paid in full, and a small amount of temporary support in the US covering three employees.

Strategy

In early 2018, the board adopted a three-year strategic plan for the business. This is measured, monitored and reviewed annually and updated using market insight and trend information in line with the budget process. The plan is designed to drive shareholder value and has defined targets for sales, EBITDA, earnings per share and cash generation, these targets are currently under review whilst we work through the Covid-19 pandemic. The strategic plan was amended by the board in 2020 and comprises six key pillars:

- 1. Develop and build the Group’s brands and provide new product development that meets changing trend and consumer needs*
- 2. Develop and nurture the current core business*
- 3. Grow market share in the UK*
- 4. Grow market share in the US and China*
- 5. Develop the online/e-commerce strategy for brand development and sales*
- 6. Develop the appropriate organisational structure, people strategy and organisational efficiency*

A more detailed breakout of the strategic plan is available in the Company's Annual Report for the year ended 31 December 2019: <https://www.warpaintlondonplc.com/investors/reports-and-results>.

Brands

In the first half of 2020 the Group continued to focus on the development of its brands. Since acquiring Retra in November 2017 the focus has been on assisting the Retra product development team to make an improved, all year round, cosmetics offering and, for the Retra sales team to acquire listings for the Technic brands in accounts, particularly overseas, where the W7 brands were already listed. This has helped the Technic brands in H1 2020 to gain a larger proportion of Group brand sales compared to H1 2019, although the fall in sales due to Covid-19 for W7 in the US, where Technic has little sales activity has exaggerated the comparative percentage change.

Brand percentage share excluding sales of close-out and own brand white label

| | H1 2020 | H1 2019 | |
|----------------|-------------|-------------|---|
| | % | % | |
| W7 brands | 63% | 68% | Including sales of W7 and Very Vegan |
| Technic brands | 37% | 32% | Including sales of Technic, Body Collection and Man's stuff |
| | 100% | 100% | |

Products

The largest selling product categories across all the Group sales are eye products, face make-up, nail products and lip products, which together represented approximately 84% of revenue in H1 2020 (H1 2019: 83%).

In the six months to 30 June 2020 the split of product sales is shown below:

| | |
|--------------------|-----|
| Eyes | 33% |
| Face | 25% |
| Nails | 17% |
| Lip | 9% |
| Gift | 4% |
| Skin Care | 4% |
| Brushes | 3% |
| Others | 2% |
| Accessories & Sets | 2% |
| Men | 1% |

Customers & Geographies

The largest customers for sales of our Group brands are in the UK, Australia and Europe. In H1 2020 our top ten customers represented 50% of revenues (H1 2019: 56%). Year on year US customers previously in the top ten have dropped out because of the Covid-19 lockdowns, this has exaggerated the percentage change. Group sales are now made in 46 countries (H1 2019: 51 countries).

US

Since the lockdowns started in March 2020, Covid-19 has impacted our business most of all in the US. Sales in US dollars in H1 2020 are down 62% to US\$1.1 million (H1 2019: US\$2.8 million). There is some encouragement from the percentage of sales in the US being from Group brands, which has risen to 80%, as close-out becomes less important to our LMS business in the US. Current customers

include Macys Backstage, Marshalls, and TJ Maxx. We have recently renegotiated the lease of our showroom in New York to a smaller unit as part of an ongoing effort to reduce costs, this is over and above the US\$0.4 million of cost savings announced in the 2019 Annual Report.

Europe

Continental Europe has for some time been an area of excellent growth for the Group, however the Covid-19 pandemic impacted this region severely once country wide lockdowns started in March 2020. Group sales overall in Europe decreased in H1 2020 by 35% compared to the same period in 2019. However, in France sales have increased 19% in H1 2020 to £0.3 million, as have sales in Turkey up 97% to £0.1 million, and we have seen a strong sales recovery for our brands in Europe since the easing of the Covid-19 lockdowns. Sales for the Groups brands into Europe are mainly to Spain, Denmark, Sweden and Germany.

Plans have been made, as far as possible, to ensure business continuity whatever the nature of the UK's future trading relationship with the EU. These plans include the utilisation of the Company's wholly owned subsidiary Warpaint Cosmetics (ROI) Limited in the Republic of Ireland, which was formed specifically for this purpose and to help protect against any UK/EU cross-border disruption.

Rest of the World

Sales in the rest of the world for the Group were down by 34% to £0.8 million in the period, compared to the corresponding period last year. As with our other international regions, overall sales were down due to the Covid-19 pandemic. However, in Australia which is a key country in the rest of the world region sales increased slightly by 1% in H1 2020 to £0.4 million, and whilst still small there was growth in Japan and South Korea in H1 2020. Since the easing of the Covid-19 lockdowns in the rest of the world region we have seen a steady sales recovery for our brands, though some countries remain closed for business.

UK

Trading conditions in the UK were challenging in H1 2020 because of the Covid-19 related UK high street slow down and the subsequent lockdown in Q2 2020. Group sales in the UK were down by 12% in H1 2020 compared to H1 2019. In the UK the Group performed better through the Covid-19 crisis than in our international regions because the imposed lockdown was not as severe and some of our UK customers were deemed "essential", so they remained open for business. The top ten UK Group customers accounted for 66% of UK sales in H1 2020 (H1 2019: 73%). Those customers that remained open through Covid-19 performed well in H1 2020, they include B&M Retail (up 37%) and The Range (up 101%).

As of 30 June 2020, Retra had an order book for Christmas gifting of £8.4 million already secured (30 June 2019: £10.1 million) which will be delivered during H2 2020. This will be the primary driver of revenues being weighted to the second half of the year, and most of it will be in the UK. The order book has been built and signed off with customers through the Covid-19 lockdown period with all the usual face to face work and sampling having to be done remotely online, this is testament to our longstanding customer relationships and our reputation. We have continued to take further significant orders post the period end as the market has recovered.

Summary and Outlook

The first half of 2020 has been a difficult period for everyone, but we believe that with the actions taken along with the Group's current financial resources, we are well placed to weather the Covid-19 crisis. We have a global business and the capacity, expertise and strategy to drive our future growth.

Before the Covid-19 crisis the business was trading well, with higher sales, stronger margins, reduced overheads and higher net profit than budgeted, demonstrating that our business model is strong and that our brands are resonating with customers and consumers. In the short term, Covid-19 has had an impact on our financial performance, resulting in lower than budgeted sales and profits. However, as we start the

second half of 2020, sales have returned towards budgeted levels set prior to the pandemic and we are well positioned to take advantage of improving market conditions.

We continue to monitor the impact of the pandemic, ensuring that we look after customers and staff and take any additional steps if required. Covid-19 will undoubtedly influence our short-term business decisions, however our focus for the remainder of the year remains on the delivery of our strategic plan which the board have reviewed and considered in light of Covid-19 and believe remains appropriate and correct.

With our strong balance sheet (including net cash of £3.8 million) and a positive cash outlook for H2 2020, prospects remain encouraging as we emerge from the worst effects of the Covid-19 pandemic. We have seen a strong sales recovery in the UK since the easing of the Covid-19 lockdowns, with recent sales approaching the Company's budget set at the beginning of the year, helped by the growing exposure and sales from our W7 brand launch into Tesco in 2020, and the recent launch in September into wilko of Technic and Body Collection.

For the eight months to 31 August 2020 the Company had unaudited sales of £22.8 million and adjusted profit from operations** of £0.7 million. In response to the pandemic, at each board meeting we have modelled various scenarios based on sales for the full year being down against our internal budget for 2020. Each of these scenarios forecasts a positive EBITDA for the year. The board's current expectation is that sales for the year ending 31 December 2020 will be approximately £37 million, which should generate adjusted profit from operations** in excess of £2.0 million, on the assumption that there is no material decline in trading conditions as a result of additional Covid-19 related lockdown measures nor any adverse exchange rate movements.

Sam Bazini
Chief Executive Officer
23 September 2020

Chief Financial Officer's Review

The Group financial performance in the first half of 2020 started well with the first two months of the year trading at the upper end of the board's expectations, however the Covid-19 pandemic had a material impact on our financial performance for the rest of the first half, resulting in lower than budgeted sales and profits. The actions we took as a business in response to Covid-19 in the first half, enabled us to remain focused on margin, being net debt free, generating cash and safeguarding the business and the jobs of our employees.

Headline results, shown below, represent the performance comparisons between the consolidated statements of income for the half years ended 30 June 2020 and 30 June 2019.

Revenue

Total revenue reduced by 29% from £18.9 million in H1 2019 to £13.5 million in H1 2020. The directors believe the fall in sales year on year is due to the Covid-19 lockdowns in the UK and internationally.

Company branded sales were £10.5 million in the first half of the year (H1 2019: £15.2 million). Our W7 brand had sales in the first half of the year of £6.6 million (H1 2019: £10.3 million). Our Technic brand contributed sales of £3.9 million in the first half of the year (H1 2019: £4.9 million).

The close-out business had sales in the first half of the year of £2.4 million (H1 2019: £3.3 million).

Internationally, revenue reduced 40.0% from £11.2 million in H1 2019, to £6.7 million in H1 2020. In Europe Group sales reduced by 35.0% to £5.1 million (H1 2019: £7.8 million). In the rest of the world Group sales fell by 34.0% to £0.8 million (H1 2019: £1.2 million). In the US Group sales fell by 61.4% to £0.8 million (H1 2019: £2.2 million).

Our Retra business had sales of retailer own brand white label cosmetics of £0.3 million in the first half of the year (H1 2019: £0.4 million). The white label business is traditionally cost competitive and Retra chooses which projects to undertake based on commercial viability, in particular margin.

Other income of £0.3 million was received from the UK Government's furlough scheme in H1 2020.

Product Gross Margin

Gross margin was 35.1% for the half year compared to 34.9% in H1 2019. Gross margin has increased due to the geographic mix of sales, lower manufacturing costs and improved foreign exchange rates.

Sales in the UK decreased 12% to £6.8 million in the first half of the year, whereas internationally sales decreased 40% to £6.7 million in the same period. International sales are typically made at a slightly lower margin than our domestic sales.

We are not experiencing pressure on the cost of inventory and are making good use of our Hong Kong buying office to ensure this continues. Any currency pressure is mitigated with a discount mechanism linked to the US dollar exchange rate from our key supplier in China, by moving production to new factories of equal quality to retain or improve margin, and from US dollar revenue which provide a natural hedge. There was a lot of hard work carried out in 2019 to move a significant proportion of Group buying to new factories in China that have now delivered an improved margin for the same quality of product in 2020. We remain focused on improving gross margin in all our businesses.

At 31 December 2019 options were in place for the purchase of US\$15 million at US\$1.3142/£ and this has greatly helped to protect and improve our margin through a turbulent period in the foreign exchange markets, in which the US dollar strengthened to US\$1.16/£ during the peak of the Covid-19 pandemic.

Operating Expenses

Total operating expenses decreased by £0.6 million from H1 2019 to H1 2020. Excluding amortisation of intangibles, depreciation charges, exceptional items, share based payments, foreign exchange movements, and finance costs operating expenses decreased by £0.2 million from H1 2019 to H1 2020. This decrease was made up of a reduction in discretionary spend on travel, PR and marketing totalling £0.5 million in response to Covid-19, an increase cost in trading online of £0.1 million as sales online increased sharply in response to Covid-19, and an increase in the provision 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.

Profit Before Tax

Group loss before tax for the half year to 30 June 2020 was £1.5 million (H1 2019: £0.2 million). The material changes in the losses between 30 June 2019 and 2020 were:

| | Effect on Profit |
|---|-------------------------|
| • Gross margin on decrease in sales in H1 2020 | (£1.9) million |
| • Decrease in operating expenses (see above heading) | £0.2 million |
| • FX gain in H1 2020 £0.6 million (H1 2019: FX loss £0.1 million) | £0.7 million |
| • Increase in the cost of share option schemes | (£0.2) million |
| • Increase in exceptional costs | (£0.2) million |

Exceptional Items

Exceptional costs in H1 2020 included £0.13 million of staff restructuring costs and £0.06 million of legal costs (H1 2019: Nil).

Earnings Per Share

The statutory interim basic and diluted loss per share was 1.68p in H1 2020 (0.22p in H1 2019).

The adjusted interim earnings per share before exceptional items and amortisation costs was 0.16p in H1 2020 (1.37p in H1 2019).

LTIP, EMI & CSOP Share Options

On the 21 May 2020 CSOP share options were granted over a total of 454,686 ordinary shares of 25p each in the Company under the Warpaint London PLC Company Share Option Plan. The options provide the right to acquire 454,686 ordinary shares at an exercise price of 49.5p 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 half year to 30 June 2020 was £0.33 million (H1 2019: £0.13 million) and has been taken to the share option reserve.

Cash Flow and Cash Position

Net cash flow generated from operating activities was £2.3 million compared to £1.3 million in H1 2019. The Group's cash balance increased by £0.17 million to £3.8 million as at 30 June 2020 (30 June 2019: £3.7 million).

We expect capital expenditure requirements of the Group to remain low, with a small initial uplift to fund the cost of display units in Tesco and wilko. In H1 2020, £0.5 million (H1 2019: £0.2 million) was spent on new computer software and equipment, office fixtures and fittings, and sales display units for use in store by customers.

Balance Sheet

The Group's balance sheet remains in a very healthy position. Net assets totalled £38.9 million at 30 June 2020, with the majority made up of liquid assets of inventory, trade receivables and cash. Included in the balance sheet is £7.3 million of goodwill and £5.9 million of intangible fixed assets arising from acquisition accounting.

The balance sheet also includes £4.2 million of right-of-use assets. £3.9 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 £4.0 million at the balance sheet date.

Trade receivables, excluding other receivables, at 30 June 2020 were £5.6 million (30 June 2019: £7.6 million). Collection times remain in line with the prior half year, however some customers are still in distress because of Covid-19, therefore, to be prudent we have increased our provision for bad and doubtful debts to £0.26 million, 4.4% of gross trade receivables (30 June 2019: £0.03 million, 0.4%).

Inventory at 30 June 2020 were £18.9 million (30 June 2019: £18.7 million). Year on year inventory in the US has fallen £0.8 million as we have reduced close-out sales opportunities and focused the US inventory range on our best-selling brand lines. At the same time UK inventory has increased by £1.0 million. The rise in inventory in the UK was due to several factors including the increase in range offering across the Group, delayed deliveries due to Covid-19, and inventory necessary for the supply to Tesco and Wilko. The provision for old and slow inventory was £0.5 million, 2.7% at 30 June 2020 (30 June 2019: £0.2 million, 0.9%). The increase in provision is prudent given the growth in inventory.

Borrowings and lease liabilities includes £1.0 million (30 June 2019: £1.0 million) of invoice and stock finance outstanding of Retra, which was used to help fund the import of its gifting business.

Working capital decreased by £1.7 million from 30 June 2019 to 30 June 2020. The main components were an increase in inventory of £0.2 million, a decrease in trade and other receivables of £2.4 million, an increase in cash of £0.17 million, and a decrease in trade and other payables of £0.3 million.

Foreign Exchange

The Group imports most of its finished goods from China paid for in US dollars. We have a natural hedge from sales to the US which are entirely in US dollars, in H1 2020 these sales were US\$1.1 million (H1 2019: US\$2.8 million).

US dollars 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 2020 with options in place for the purchase of US\$15 million @ US\$1.3142/£, and the sale of €4.4 million @ €1.1402/£ (1 January 2019: US\$Nil, and €1.1 million @ €1.1289/£).

Together with the discount mechanism from our main supplier in China, sourcing product from new factories where it makes commercial sense to do so and by buying US dollars when rates are favourable, we have been able to mitigate the effect of the strong US dollar against sterling in H1 2020.

Dividend

As announced in our results for 2019 the board decided in the interests of prudence given the considerable on-going uncertainty due to Covid-19, and in order to further preserve the Company's cash resources, not to recommend a final dividend for 2019. However, we are confident in our prospects for the rest of the year and consequently dividends can be resumed against a background of good control of cash and continued cash generation, plus a testament to the response of the business through Covid-19.

The board therefore is pleased to have declared an interim dividend of 2.8p per share, maintaining the

prior year interim dividend of 1.5p per share, together with a one off additional 1.3p per share, to reflect that no final dividend was declared for 2019.

The dividend payment of 2.8p per share will be paid on 20 November 2020 to shareholders on the register at close of business on 6 November 2020. The ordinary shares will be marked ex-dividend on 5 November 2020.

Neil Rodol
Chief Financial Officer
23 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | <i>Unaudited</i> 6 Months ended 30 June 2020 £'000 | <i>Unaudited</i> 6 Months ended 30 June 2019 £'000 | <i>Audited</i> Year ended 31 December 2019 £'000 |
|--|-------|---|---|--|
| Revenue | | 13,531 | 18,943 | 49,282 |
| Cost of sales | | (8,780) | (12,325) | (32,780) |
| Gross profit | | 4,751 | 6,618 | 16,502 |
| Administrative expenses | 3 | (6,120) | (6,675) | (14,355) |
| Analysed as: | | | | |
| Adjusted profit from operations ¹ | | 380 | 1,293 | 5,580 |
| Amortisation | | (1,221) | (1,221) | (2,439) |
| Exceptional items | 3 | (193) | - | (178) |
| Share based payments | | (335) | (129) | (816) |
| (Loss)/profit from operations | | (1,369) | (57) | 2,147 |
| Finance expenses | 4 | (107) | (153) | (370) |
| (Loss)/profit before tax | 3 | (1,476) | (210) | 1,777 |
| Tax expense | 5 | 189 | 44 | (409) |
| (Loss)/profit for the period attributable to equity holders of the parent company | | (1,287) | (166) | 1,368 |
| Other comprehensive income (net of tax): | | | | |
| Exchange gain on translation of foreign subsidiary | | (4) | - | (12) |
| Total comprehensive (loss)/income for the period attributable to equity holders of the parent company | | (1,291) | (166) | 1,356 |
| (Loss)/earnings per share – Basic and diluted | 6 | (1.68) | (0.22) | 1.78 |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Unaudited</i> As at 30 June 2020 | <i>Unaudited</i> As at 30 June 2019 | <i>Audited</i> As at 31 December 2019 |
|--|---|---|---|
| | £'000 | £'000 | £'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 7,274 | 7,051 | 7,274 |
| Intangible assets | 5,871 | 8,289 | 7,082 |
| Property, plant and equipment | 1,006 | 1,277 | 684 |
| Right-of-use assets | 4,197 | 4,943 | 4,685 |
| Deferred tax assets | 396 | - | 374 |
| | 18,744 | 21,560 | 20,099 |
| Current assets | | | |
| Inventories | 18,853 | 18,667 | 16,194 |
| Trade and other receivables | 8,895 | 11,290 | 12,624 |
| Cash and cash equivalents | 3,819 | 3,654 | 2,731 |
| Derivative financial instruments | 251 | - | 39 |
| | 31,818 | 33,611 | 31,588 |
| Total assets | 50,562 | 55,171 | 51,687 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 4,957 | 5,275 | 3,933 |
| Borrowings and lease liabilities | 1,989 | 6,357 | 2,206 |
| Dividends payable | - | 2,256 | - |
| Corporation tax payable | 255 | 582 | 548 |
| | 7,201 | 14,470 | 6,687 |
| Non-current liabilities | | | |
| Borrowings and lease liabilities | 3,409 | 422 | 3,863 |
| Deferred tax liabilities | 1,095 | 1,554 | 1,324 |
| | 4,504 | 1,976 | 5,187 |
| Total liabilities | 11,705 | 16,446 | 11,874 |
| NET ASSETS | 38,857 | 38,725 | 39,813 |
| EQUITY | | | |
| Share capital | 19,187 | 19,187 | 19,187 |
| Share premium | 19,359 | 19,359 | 19,359 |
| Merger reserve | (16,100) | (16,100) | (16,100) |
| Foreign exchange reserve | 32 | 48 | 36 |
| Share option reserve | 1,312 | 290 | 977 |
| Retained earnings | 15,067 | 15,941 | 16,354 |
| Total equity attributable to shareholders | 38,857 | 38,725 | 39,813 |

CONSOLIDATED STATEMENT OF CASH FLOW

| Notes | <i>Unaudited</i> 6 Months ended 30 June 2020 £'000 | <i>Unaudited</i> 6 Months ended 30 June 2019 £'000 | <i>Audited</i> Year ended 31 December 2019 £'000 |
|---|---|---|--|
| (Loss)/profit before tax for the period | (1,476) | (210) | 1,777 |
| Adjusted by: | | | |
| Interest paid | 4 107 | 153 | 370 |
| Depreciation of property, plant and equipment | 628 | 726 | 1,194 |
| Amortisation of intangible assets | 1,221 | 1,221 | 2,439 |
| Loss on disposal of property, plant and equipment and intangible assets | - | - | 39 |
| Share based payment | 335 | 129 | 816 |
| Movement in inventories | (2,659) | (3,305) | (832) |
| Movement in trade and other receivables | 3,729 | 1,471 | (327) |
| Movement in trade and other payables | 1,002 | 1,780 | 444 |
| Movement in derivative financial instruments | (212) | - | (39) |
| Foreign exchange translation differences | (4) | - | (13) |
| Cash inflow generated from operations | 2,671 | 1,965 | 5,868 |
| Income tax paid | (333) | (644) | (1,499) |
| Cash flows from operating activities | 2,338 | 1,321 | 4,369 |
| Purchase of property, plant and equipment | (462) | (196) | (284) |
| Purchase of intangible assets | (10) | (24) | (35) |
| Cash flows used by investing activities | (472) | (220) | (319) |
| Principal elements of lease payments | (424) | (401) | (811) |
| Repayment of borrowings | (45) | (129) | (83) |
| (Decrease)/increase in stock and invoice finance facilities | (202) | (903) | (719) |
| Interest paid | (107) | (55) | (370) |
| Dividends | - | - | (3,377) |
| Cash flows used by financing activities | (778) | (1,488) | (5,360) |
| Net change in cash and cash equivalents | 1,088 | (387) | (1,310) |
| Cash and cash equivalents at beginning of period | 2,731 | 4,041 | 4,041 |
| Cash and cash equivalents at end of period | 3,819 | 3,654 | 2,731 |
| Cash and cash equivalents consists of: | | | |
| Cash and cash equivalents | 3,819 | 3,654 | 2,731 |
| | 3,819 | 3,654 | 2,731 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share Premium | Merger reserve | Foreign exchange reserve | Share option reserve | Retained earnings | Total |
|--|------------------|------------------|-------------------|--------------------------------|----------------------------|----------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| As at 1 January 2019 | 19,187 | 19,359 | (16,100) | 48 | 161 | 18,363 | 41,018 |
| Profit for the period | - | - | - | - | - | (166) | (166) |
| Total comprehensive income for the period | - | - | - | - | - | (166) | (166) |
| Transactions with owners | | | | | | | |
| Share based payments | - | - | - | - | 129 | - | 129 |
| Dividends paid | - | - | - | - | - | (2,256) | (2,256) |
| Total transactions with owners | - | - | - | - | 129 | (2,256) | (2,127) |
| As at 30 June 2019 | 19,187 | 19,359 | (16,100) | 48 | 290 | 15,941 | 38,725 |
| As at 1 January 2019 | 19,187 | 19,359 | (16,100) | 48 | 161 | 18,363 | 41,018 |
| On translation of foreign subsidiary | - | - | - | (12) | - | - | (12) |
| Profit for the year | - | - | - | - | - | 1,368 | 1,368 |
| Total comprehensive income for the year | - | - | - | (12) | - | 1,368 | 1,356 |
| Transactions with owners | | | | | | | |
| Share based payments | - | - | - | - | 816 | - | 816 |
| Dividends paid | - | - | - | - | - | (3,377) | (3,377) |
| Total transactions with owners | - | - | - | - | 816 | (3,377) | (2,561) |
| As at 31 December 2019 | 19,187 | 19,359 | (16,100) | 36 | 977 | 16,354 | 39,813 |
| As at 1 January 2020 | 19,187 | 19,359 | (16,100) | 36 | 977 | 16,354 | 39,813 |
| On translation of foreign subsidiary | - | - | - | (4) | - | - | (4) |
| Loss for the period | - | - | - | - | - | (1,287) | (1,287) |
| Total comprehensive income for the period | - | - | - | - | - | 15,067 | 38,522 |
| Transactions with owners | | | | | | | |
| Share based payments | - | - | - | - | 335 | - | 335 |
| Total transactions with owners | - | - | - | - | 335 | - | 335 |
| As at 30 June 2020 | 19,187 | 19,359 | (16,100) | 32 | 1,312 | 15,067 | 38,857 |

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

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

The accounts have been prepared in accordance with accounting policies that are consistent with the Group's Annual Report and Accounts for the year ended 31 December 2019 and that are expected to be applied in the Group's Annual Report and Accounts for the year ended 31 December 2020.

The comparative financial information for the year ended 31 December 2019 in this interim report does not constitute statutory accounts for that period under 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies.

The auditors' report on the accounts for 31 December 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

2. Changes in significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

3. Profit from operations

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

| | <i>Unaudited</i> 6 Months ended 30 June 2020 £'000 | <i>Unaudited</i> 6 Months ended 30 June 2019 £'000 | <i>Audited</i> Year ended 31 December 2019 £'000 |
|--|---|---|--|
| Depreciation of property, plant and equipment | 176 | 205 | 326 |
| Amortisation of right-of-use assets | 451 | 538 | 868 |
| Amortisation of intangible assets | 1,221 | 1,221 | 2,439 |
| Write down inventories at net realisable value | - | - | 83 |
| Exchange differences | (641) | 62 | 227 |
| Exceptional costs | 193 | - | 178 |

Exceptional costs for the period ended 30 June 2020 include £0.13m of staff restructuring costs and £0.06m of legal costs. (6 months ended 30 June 2019; £Nil) (31 December 2019 included £0.15m of restructuring costs in the United States and £0.02m of non-recurring legal and professional fees.)

4. Finance expenses

| | <i>Unaudited</i> 6 Months ended 30 June 2020 £'000 | <i>Unaudited</i> 6 Months ended 30 June 2019 £'000 | <i>Audited</i> Year ended 31 December 2019 £'000 |
|--------------------------|---|---|--|
| Interest on loans | 10 | 25 | 26 |
| Lease liability interest | 87 | 30 | 225 |
| Other interest | 10 | 98 | 119 |
| Finance expenses | 107 | 153 | 370 |

5. Tax expenses

| | <i>Unaudited</i> 6 Months ended 30 June 2020 | <i>Unaudited</i> 6 Months ended 30 June 2016 | <i>Audited</i> Year ended 31 December 2019 |
|--|--|--|---|
| | £'000 | £'000 | £'000 |
| Current tax expense | | | |
| Current income tax charge | 40 | 192 | 1,102 |
| Adjustment in respect of previous periods | - | - | (75) |
| | 40 | 192 | 1,027 |
| Deferred tax expense | | | |
| Relating to original and reversal of temporary differences | (229) | (236) | (618) |
| Total tax in income statement | (189) | (44) | 409 |

6. (Loss)/earnings per share

(Loss)/profit for the period used in the calculation of the basic and diluted earnings per share:

| | <i>Unaudited</i> 6 Months ended 30 June 2020 | <i>Unaudited</i> 6 Months ended 30 June 2019 | <i>Audited</i> Year ended 31 December 2019 |
|---------------------------------|--|--|---|
| | £'000 | £'000 | £'000 |
| Profit after tax for the period | (1,287) | (166) | 1,368 |

The share options in issue at each period end 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 weighted average number of shares for the purposes of diluted earnings per share reconciles to the weighted average number of shares used in the calculation of basic earnings per share as follows:

| | <i>Unaudited</i> 6 Months ended 30 June 2020 | <i>Unaudited</i> 6 Months ended 30 June 2019 | <i>Audited</i> Year ended 31 December 2019 |
|--|--|--|---|
| Weighted average number of shares | | | |
| Weighted number of ordinary shares for the purpose of basic earnings per share | 76,749,125 | 76,749,125 | 76,749,125 |
| Potentially dilutive shares awarded | - | - | - |
| Weighted number of ordinary shares for the purpose of diluted earnings per share | 76,749,125 | 76,749,125 | 76,749,125 |
| | | | |
| (Loss)/earnings per share (pence) – Basic and Diluted | (1.68) | (0.22) | 1.78 |