

# **KMS Haircare Limited**

**Directors' report and financial statements**

**31 December 2006**

Registered number 947667 (England and Wales)



## Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Officers and professional advisors	1
Directors' report	2-3
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes to the financial statements	9

**Officers and Professional Advisors**

<b>Board</b>	N J K Wood	(appointed 31 August 2006)
	N A Hill	(resigned 31 August 2006)
	C E Broekhof	
	C R Sillery	

<b>Company Secretary</b>	N A Hill	(resigned 31 August 2006)
--------------------------	----------	---------------------------

<b>Registered Office</b>	Park View Alder Close Eastbourne East Sussex BN23 6QE
--------------------------	---

<b>Independent Auditors</b>	Deloitte & Touche LLP Chartered Accountants Crawley
-----------------------------	---

<b>Bankers</b>	Barclays Bank Plc London Corporate Banking 50 Pall Mall London SW1A 1QA
----------------	---

<b>Legal Advisors</b>	Field Fisher Waterhouse 35 Vine Street London EC3N 2AA
-----------------------	---

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006

### Principal activities

The principal activity of the Company during the year continued to be the sale of haircare products to the professional hairdressing industry

### Business review, results and future prospects

The company experienced excellent growth in the year, as shown by the increase in turnover to £6,929,042 (2005 - £4,046,149) and the increase in operating profit to £2,108,821 (2005 - £833,626)

The Directors anticipate that the Company will continue to grow from the introduction of new products and the development of new markets

During the year, the Company continued to act as the European distributor of KMS haircare products to agents within each European country including the United Kingdom

The Directors are pleased with the results for the year which are set out on page 6. The position of the company at the balance sheet date is shown on page 7

### Results, dividends and transfers to reserves

During the year ended 31 December 2006, the Company achieved a profit after taxation of £1,571,352 (2005 - £691,984)

The directors do not recommend a dividend for the year ended 31 December 2006 (2005 - Nil). Accordingly, the retained profit of £1,571,352 (2004 - £691,984) was transferred to reserves

### Directors and their share interests

The Directors who served throughout the year, unless otherwise stated, were as follows

Mr N J K Wood	(appointed 31 August 2006)
Mr N A Hill	(resigned 31 August 2006)
Mr C E Broekhof	
Mr C R Sillery	

None of the Directors serving at the year end held any interest in the shares of the Company or any other group company

**Directors' report** *(continued)***Financial risk management objectives and policies**

The group's activities expose it to a number of financial risks including credit risk and cash flow risk. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The group does not use derivative financial instruments for speculative purposes.

**Cash flow risk**

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company does not use foreign exchange forward contracts to hedge these exposures.

**Credit risk**

The group's principal financial assets are bank balances and cash and trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

**Auditors**

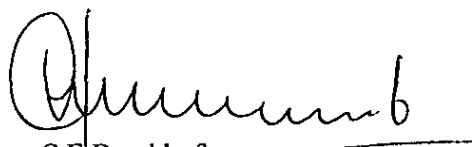
Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

  
C E Broekhof  
Director

Registered Office  
Park View  
Alder Close  
Eastbourne  
East Sussex  
BN23 6QE

30 January 2007

## Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and,
- 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 also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent Auditors' Report to the members of KMS Haircare Limited**

We have audited the financial statements of KMS Haircare Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Crawley

6 February 2007

# KMS Haircare Limited

## Profit and loss account

For the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	2	6,929,042	4,046,149
Cost of sales		(4,280,349)	(2,560,930)
Gross profit		<u>2,648,693</u>	<u>1,485,219</u>
Sales and administrative expenses		(539,872)	(651,593)
Operating profit	3	<u>2,108,821</u>	<u>833,626</u>
Interest receivable and similar income	5	139,760	83,663
Interest payable and similar charges	6	(3,792)	(3,396)
Profit on ordinary activities before taxation		<u>2,244,789</u>	<u>913,893</u>
Tax charge on profit on ordinary activities	7	(673,437)	(221,909)
Retained profit for the financial year	14, 15	<u><u>1,571,352</u></u>	<u><u>691,984</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations. There are no recognised gains and losses for either period other than those passing through the profit and loss account.



**Balance sheet**  
*At 31 December 2006*

These financial statements were approved by the Board of Directors on 30 January 2007 and were signed on its behalf by

Nicholas Wood

**Mr N Wood**  
*Director*

**Mr C Broekhof**  
*Director*

Director

# KMS Haircare Limited

## Cash flow statement

For the year ended 31 December 2006

	Note	2006	2005
		£	£
<b>Net cash inflow from operating activities</b>	17 1	2,027,809	1,555,857
<b>Returns on investments and servicing of finance</b>			
Interest received		139,760	83,663
Interest paid		(3,792)	(3,396)
<b>Net cash inflow from returns on investments and servicing of finance</b>		135,968	80,267
<b>Taxation – corporation tax paid</b>		(444,344)	(25,000)
<b>Net cash inflow before financing</b>		1,719,433	1,611,124
<b>Financing</b>			
Loan to a fellow group undertaking		-	1,000,000
Loan to immediate parent undertaking		(1,400,000)	(2,300,000)
<b>Net cash outflow from financing</b>		(1,400,000)	(1,300,000)
<b>Increase in cash in the year</b>	17 3	319,433	311,124

## Notes to the financial statements

For the year ended 31 December 2006

### 1. Accounting policies

The following principal accounting policies have been used by the Company in the preparation of these financial statements and have been applied consistently in the current and preceding financial year

#### *Accounting convention*

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

#### *Turnover*

Turnover represents amounts receivable for goods and services net of VAT and trade discounts

#### *Pensions*

The pension costs charged in the financial statements represent the contributions payable by the Company to defined contribution pension schemes during the period, in accordance with FRS17

#### *Deferred taxation*

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

### 2. Turnover

	2006 £	2005 £
<b>Geographical market:</b>		
United Kingdom	1,641,485	821,250
Europe	5,287,557	3,224,899
	<u>6,929,042</u>	<u>4,046,149</u>

The turnover, profit before taxation and net assets are all attributable to the Company's principal activity of the sale of professional hair care products

**Notes to the financial statements**

*For the year ended 31 December 2006*

**3. Operating profit**

	2006 £	2005 £
<b>Operating profit is stated after charging:</b>		
Auditors' remuneration		
For audit work	14,700	14,300
For non-audit work - tax	8,105	7,000
	<u>          </u>	<u>          </u>

**4. Staff costs: Employees and directors**

	2006 £	2005 £
<b>Staff costs</b>		
Salaries and wages	84,728	87,827
Social security costs	7,628	7,343
Other pension costs	9,186	10,060
	<u>101,542</u>	<u>105,230</u>

The average monthly number of persons employed by the Company (including Directors) during the year was as follows

	2006 Number	2005 Number
<b>Administration</b>	<u>2</u>	<u>2</u>

	2006 £	2005 £
<b>Directors' emoluments</b>		
Emoluments for qualifying services	<u>4,378</u>	<u>10,000</u>

The number of Directors for whom retirement benefits were accruing under money purchase pension schemes was none (2005 – none)

**Notes to the financial statements**

*For the year ended 31 December 2006*

**5. Interest receivable and similar income**

	2006 £	2005 £
Bank interest	8,000	6,674
Interest on loans to immediate parent company	131,760	60,336
Interest on loans to fellow group undertakings	-	16,653
	<u>139,760</u>	<u>83,663</u>

**6. Interest payable and similar charges**

	2006 £	2005 £
Bank charges	2,742	3,396
Interest payable	1,050	-
	<u>3,792</u>	<u>3,396</u>

**7 Tax charge on profit on ordinary activities**

	2006 £	2005 £
UK Corporation tax payable at 30% (2005 30%) based on the profit for the period	668,834	268,844
Adjustment for prior period	-	(53,072)
	<u>668,834</u>	<u>215,772</u>
<b>Deferred tax</b>		
Deferred tax – current period (see note 10)	4,603	6,137
	<u>673,437</u>	<u>221,909</u>

**Notes to the financial statements**

*For the year ended 31 December 2006*

**7 Tax charge on profit on ordinary activities (continued)**

The tax assessed for the period is different from that resulting from applying the standard rate of corporation tax in the UK 30% (2005 30%) The differences are explained below

	2006 £	2005 £
Profit on ordinary activities before tax	2,244,789	913,893
Tax at 30% thereon	673,437	274,168
Expenses not deductible for tax purposes	-	813
Capital allowances in excess of depreciation	(4,603)	(6,137)
	<u>668,834</u>	<u>268,844</u>

**8. Debtors**

	2006 £	2005 £
<b>Amounts falling due within one year:</b>		
Trade debtors	380,821	365,925
Amounts owed by immediate parent company	1,956,588	1,560,336
Amounts owed by fellow group undertakings	237,294	136,213
Prepayments and accrued income	3,832	8,534
	<u>2,578,535</u>	<u>2,071,008</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by immediate parent company	1,900,000	800,000
Deferred taxation (see note 10)	13,808	18,411
	<u>4,492,343</u>	<u>2,889,419</u>

**Notes to the financial statements**

*For the year ended 31 December 2006*

**9. Called up share capital**

	2006 £	2005 £
<i>Authorised</i>		
9,000 ordinary 'A' shares of £1 each	9,000	9,000
1,000 ordinary 'B' shares of £1 each	1,000	1,000
	<u>10,000</u>	<u>10,000</u>
<i>Allotted, called up and fully paid</i>		
180 ordinary 'A' shares of £1 each	180	180
242 ordinary 'B' shares of £1 each	242	242
	<u>422</u>	<u>422</u>

The ordinary "B" shares differ from the ordinary "A" shares solely in that they do not carry any voting rights

**10 Deferred taxation**

	2006 £	2005 £
<b>Deferred taxation</b>		
Balance at 1 January	18,411	24,548
Charged to the profit and loss account (see note 7)	(4,603)	(6,137)
	<u>13,808</u>	<u>18,411</u>
Debtor balance at 31 December (see note 8)		

The deferred taxation asset recognised in the financial statements is as follows

	2006 £	2005 £
Accelerated capital allowances	<u>13,808</u>	<u>18,411</u>

**Notes to the financial statements**

*For the year ended 31 December 2006*

**11. Creditors: amounts falling due within one year**

	2006 £	2005 £
Trade creditors	5,560	2,477
Amounts owed to immediate parent undertaking	427,475	463,206
Amounts owed to fellow group undertakings	136,336	107,688
Current corporation tax	348,834	124,344
Taxes and social security costs	64,324	36,132
Accruals and deferred income	191,317	88,994
	<u>1,173,846</u>	<u>822,841</u>

**12. Related parties disclosures**

Since 1 March 2002, the Company has been a wholly owned subsidiary with its voting control held by its immediate parent undertaking, KPSS GmbH. The ultimate controlling party is Kao Corporation, the Company's ultimate parent undertaking incorporated in Japan. The Company has taken advantage of the exemption under Financial Reporting Standard 8 and has not disclosed details of transactions with other Kao group companies since 1 March 2002.

**13. Pension costs**

	2006 £	2005 £
<b>Defined contribution</b>		
Contributions payable by the Company for the year	9,186	10,060

**14. Statement of movements on reserves**

	Share premium account £	Profit and loss account £
Balance at 1 January 2006	1,298	2,695,559
Retained profit for the financial year	-	1,571,352
Balance at 31 December 2006	<u>1,298</u>	<u>4,266,911</u>



**Notes to the financial statements**

*For the year ended 31 December 2006*

**15. Reconciliation of movements in shareholders' funds**

	2006 £	2005 £
Opening shareholders' funds	2,697,279	2,005,295
Retained profit for the financial year	1,571,352	691,984
Closing shareholders' funds	<u>4,268,631</u>	<u>2,697,279</u>

**16. Ultimate parent undertaking and immediate parent undertaking**

In the opinion of the Directors, the ultimate parent undertaking of KMS Haircare Limited is Kao Corporation, a company incorporated in Japan. The largest group in which the results of the Company are consolidated is headed by Kao Corporation and the group accounts are available to the public from 14-10 Nihonbashi Kayabacho 1 chome Chuo-ku, Tokyo 103, Japan or from [www.kao.co.jp](http://www.kao.co.jp)

The immediate parent undertaking of KMS Haircare Limited is KPSS GmbH, a company incorporated in Germany. The smallest group in which the results of the Company are consolidated is headed by KPSS GmbH and the group accounts may be obtained from Pfungstaedter Strasse 92-100, D-64297 Darmstadt, Germany

**17. Additional information on the cash flow statement**

**17.1 Reconciliation of operating profit to operating cash flow**

	2006 £	2005 £
Operating profit	2,108,821	833,626
Decrease in stocks	-	4,996
(Increase)/decrease in debtors	(207,527)	914,453
Increase/(decrease) in creditors falling due within one year	126,515	(197,218)
Net cash inflow from operating activities	<u>2,027,809</u>	<u>1,555,857</u>

**Notes to the financial statements**

*For the year ended 31 December 2006*

**17. Additional information on the cash flow statement (continued)**

**17.2 Analysis of net cash resources**

	1 January 2006 £	Cash flow £	31 December 2006 £	
Cash at bank and in hand	630,701	319,433	950,134	-
Loan receivable within one year immediate parent undertaking	1,500,000	300,000	1,800,000	
Loan receivable after one year immediate parent undertaking	800,000	1,100,000	1,900,000	
	<u>2,930,701</u>	<u>1,719,433</u>	<u>4,650,134</u>	

**17.3 Reconciliation of net funds**

	2006 £	2005 £
Increase in cash in the year	319,433	311,124
Cash outflow from movement in loan receivable within 1 year	300,000	500,000
Cash outflow from movement in loan receivable after 1 year	1,100,000	800,000
	<u>1,719,433</u>	<u>1,611,124</u>
Opening net funds	2,930,701	1,319,577
Closing net funds	<u>4,650,134</u>	<u>2,930,701</u>