

NETWORK MANAGEMENT LIMITED

**DIRECTOR'S REPORT AND
FINANCIAL STATEMENTS**

31ST DECEMBER 1997

Kidsons Impey
Chartered Accountants
Spectrum House
20-26 Cursitor Street
London EC4A 1HY



NETWORK MANAGEMENT LIMITED

DIRECTOR'S REPORT

31st December 1997

The director presents his annual report and the audited financial statements of the company for the year ended 31st December 1997.

Principal activities and business review

The principal activities of the company are the production, marketing and sales in the UK and for export of fragrance, toiletries, cosmetics, private label, beauty and personal care products.

Results and dividends

The profit for the year after tax amounted to £342,450.

The director does not recommend the payment of a dividend.

The retained profit for the year of £342,450 was transferred to reserves.

Directors

The director of the company during the year was as follows:-

J.D. Kidd

Director's interests

At 31st December 1997 Mr. J.D. Kidd had an interest in 50% (1996: 50%) of the issued ordinary share capital of the company.

Christy Cosmetics Limited owns the whole of the company's issued preference share capital.

Mr. J.D. Kidd had an interest in the following shares in Christy Cosmetics Limited:-

	'A' Ordinary shares of 10p each	'B' Ordinary shares of 10p each	13% Preference shares of £1 each	16% Preference shares of £1 each	14% 'A' Preference shares of £1 each	14% 'B' Preference shares of £1 each
At 31st December 1997	4,925	4,045	450,600	220,000	350,000	280,000
At 1st January 1997	4,925	4,045	335,000	110,000	350,000	215,000

NETWORK MANAGEMENT LIMITED

DIRECTOR'S REPORT

31st December 1997

(continued)

Statement of director's responsibilities

The director is required under company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period.

In preparing these financial statements the director is required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether accounting standards have been followed, and give details of any departures; and
- prepare the financial statements on a going concern basis unless in the director's view the company will be unable to continue in business.

The director is also responsible for:

- keeping proper accounting records;
- safeguarding the company's assets; and
- taking reasonable steps for the prevention and detection of fraud.

Environment

The company is committed to achieving high environmental standards in all areas of production, packaging, waste and energy management. It also does not use any ingredients which since 1988 have been tested on animals.

Employees

The company is an equal opportunity employer.

Auditors

A resolution to reappoint the auditors, Kidsons Impey, Chartered Accountants, will be proposed at the annual general meeting.

On behalf of the board


P.D. Statham

Secretary

Registered Office:

Weir Bank
Bray-on-Thames
Maidenhead
Berkshire SL6 2ED

24th April 1998

NETWORK MANAGEMENT LIMITED

AUDITORS' REPORT

Auditors' report to the members of Network Management Limited

We have audited the financial statements on pages 4 to 14 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on pages 1 and 2, the company's director is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 director 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 of the state of the company's affairs as at 31st December 1997 and of its profit for the year ended on that date and have been properly prepared in accordance with the Companies Act 1985.



Kidsons Impey

Registered Auditors

Chartered Accountants

London

24 April

1998

NETWORK MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1997

	Note	1997 £	1996 £
Turnover	1(b)	4,667,863	4,330,308
Cost of sales		<u>(2,108,424)</u>	<u>(1,764,819)</u>
Gross profit		2,559,439	2,565,489
Selling and distribution costs		(1,374,333)	(1,433,782)
Administrative expenses		<u>(845,665)</u>	<u>(874,854)</u>
Operating profit		339,441	256,853
Profit on sale of tangible fixed assets		-	16,767
Interest payable	2	(6,237)	(12,143)
Interest receivable		<u>9,246</u>	<u>1,594</u>
Profit on ordinary activities before taxation	2	342,450	263,071
Tax on profit on ordinary activities	5	-	-
Profit for the financial year	13	<u>342,450</u>	<u>263,071</u>

A separate statement of recognised gains and losses has not been prepared as the company has no recognised gains or losses other than the profit for the year.

The notes on pages 7 to 14 form part of these financial statements.


NETWORK MANAGEMENT LIMITED

BALANCE SHEET

at 31st December 1997

	Note	£	1997	£	£	1996	£
Fixed assets							
Intangible assets	6		1,046,875			1,103,125	
Tangible assets	7		<u>143,533</u>			<u>115,475</u>	
			1,190,408			1,218,600	
Current assets							
Stocks	8	277,245			252,109		
Debtors	9	1,571,154			1,400,104		
Cash at bank and in hand		<u>188,917</u>			<u>3,486</u>		
		2,037,316			1,655,699		
Creditors: amounts falling due within one year	10	<u>(1,260,913)</u>			<u>(1,240,922)</u>		
Net current assets			776,403			414,777	
Creditors: amounts falling due after more than one year	11		<u>-</u>			<u>(9,016)</u>	
Net assets			<u>1,966,811</u>			<u>1,624,361</u>	
Capital and reserves							
Called up share capital	12		2,980,100			2,980,100	
Profit and loss account	13		<u>(1,013,289)</u>			<u>(1,355,739)</u>	
Shareholders' funds	14		<u>1,966,811</u>			<u>1,624,361</u>	
Attributable to:							
Equity shareholders			(1,013,189)			(1,355,639)	
Non-equity shareholders			<u>2,980,000</u>			<u>2,980,000</u>	
			<u>1,966,811</u>			<u>1,624,361</u>	

The financial statements on pages 4 to 14 were approved by the director on *24th April* 1998.


J.D. Kidd
Director

The notes on pages 7 to 14 form part of these financial statements.

NETWORK MANAGEMENT LIMITED

CASH FLOW STATEMENT

for the year ended 31st December 1997

	Note	1997 £	1996 £
Net cash inflow from operating activities	17	<u>270,115</u>	<u>110,562</u>
Returns on investment and servicing of finance			
Interest received		3,090	1,594
Interest paid		(2,971)	(7,049)
Interest element of finance lease rental payments		<u>(3,266)</u>	<u>(5,094)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(3,147)</u>	<u>(10,549)</u>
Capital expenditure			
Payments to acquire intangible fixed assets		-	(250,000)
Payments to acquire tangible fixed assets		(57,969)	(56,916)
Receipts from sale of tangible fixed assets		<u>-</u>	<u>270,569</u>
		(57,969)	(36,347)
Financing			
Capital element of finance leases		(23,568)	(29,380)
Repayment of loan		<u>-</u>	<u>(8,617)</u>
Increase in cash	18	<u>185,431</u>	<u>25,669</u>

The notes on pages 7 to 14 form part of these financial statements.

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards.

b) Turnover

Turnover is the amount derived from the provision of goods falling within the company's ordinary activities after deduction of trade discounts and value added tax. All activities are classed as continuing.

c) Depreciation

Depreciation is calculated to write off the cost or valuation of all fixed assets in equal annual instalments over their estimated useful lives at the following rates:-

Computer equipment	25%
Motor vehicles	33 ¹ / ₃ %
Plant and machinery	20%
Fixtures and fittings	10%
Trade marks	5%

Tangible fixed assets purchased or sold during the year are depreciated on a pro rata basis.

d) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

e) Deferred taxation

Deferred taxation is provided, using the liability method, on all timing differences between the profit computed for taxation purposes and the profit stated in the financial statements to the extent that it is probable the liability will crystallise.

f) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. All exchange differences arising are included in the profit and loss account for the year.

g) Leasing transactions

Where an asset is acquired under a finance lease, the asset is capitalised and the corresponding liability to the leasing company is included in obligations under finance leases. Depreciation on leased assets is charged to the profit and loss account at rates calculated to write off the capitalised value of the asset over the shorter of its expected useful life and the term of the lease. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account on a straight line basis over the primary period of the lease.

All other leases are operating leases and rentals payable are charged to the profit and loss account on a straight line basis.

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

1 Accounting policies (continued)

h) Pensions

Contributions are made to an externally funded scheme and are charged to the profit and loss account when payable.

2 Profit on ordinary activities before taxation

	1997		1996
	£	£	£
Profit on ordinary activities before taxation is stated after charging:			
Interest payable:			
- Bank interest	26		63
- Other interest	2,945		6,986
- Finance charges on leased assets	<u>3,266</u>		<u>5,094</u>
		6,237	12,143
Auditors' remuneration			
- Audit		12,000	12,500
- For other services		14,100	6,034
Depreciation		29,910	43,834
Amortisation of trademarks		56,250	21,875
Operating lease rentals - other		117,069	134,079
Profit on sale of tangible fixed assets		-	(16,767)
Director's emoluments (including pension contributions) (see note 3)		63,000	63,000
Exceptional marketing costs		<u>-</u>	<u>203,083</u>
and after crediting:			
Exceptional credit			
- Legal settlement		<u>30,000</u>	<u>-</u>

3 Director's emoluments

	1997	1996
	£	£
For management	<u>63,000</u>	<u>63,000</u>
Emoluments, excluding pension contributions, are analysed as follows:		
Chairman	<u>50,000</u>	<u>50,000</u>

Mr. J.D. Kidd is a partner in a firm of solicitors which provides the company with legal and professional services. During the year the company incurred fees of £172.

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

4	Employees	1996 Number	1997 Number
	(a) The average number of persons including the director employed by the company during the year was as follows:		
	Production staff	-	3
	Selling and distribution	26	28
	Management and administration	<u>14</u>	<u>10</u>
		<u>40</u>	<u>41</u>
	(b) Staff costs:	£	£
	Wages and salaries	881,140	829,039
	Social security costs	85,068	80,224
	Other pension costs	<u>42,916</u>	<u>35,336</u>
		<u>1,009,124</u>	<u>944,599</u>
5	Tax on profit on ordinary activities		
	No charge to taxation arises in the year due to the utilisation of losses brought forward.		
6	Intangible fixed assets		Trademarks £
	Cost		
	At 1st January 1997		1,125,000
	Additions		<u>-</u>
	At 31st December 1997		<u>1,125,000</u>
	Amortisation		
	At 1st January 1997		21,875
	Charge for year		<u>56,250</u>
	At 31st December 1997		<u>78,125</u>
	Net book amount		
	At 31st December 1997		<u>1,046,875</u>
	At 31st December 1996		<u>1,103,125</u>

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997
(continued)

7	Tangible fixed assets	Short leasehold					Plant and machinery £	Fixtures and fittings £	Total £
		Freehold land £	land and buildings £	Computer equipment £	Motor vehicles £				
	Cost								
	At 1st January 1997	30,000	-	291,381	51,629	18,556	47,168		438,734
	Additions	-	31,500	6,519	12,500	-	7,450		57,969
	At 31st December 1997	30,000	31,500	297,900	64,129	18,556	54,618		496,703
	Depreciation								
	At 1st January 1997	-	-	268,112	22,694	12,606	19,847		323,259
	Charge for year	-	-	10,836	13,861	1,929	3,284		29,910
	At 31st December 1997	-	-	278,948	36,555	14,535	23,131		353,169
	Net book amount								
	At 31st December 1997	30,000	31,500	18,952	27,574	4,021	31,487		143,534
	At 31st December 1996	30,000	-	23,269	28,935	5,950	27,321		115,475

Tangible fixed assets at 31st December 1997 include fixtures and fittings and motor vehicles held under finance leases and hire purchase agreements as follows:-

	Computer equipment £	Motor Vehicles £	Fixtures and fittings £	Total £
Cost	9,914	32,209	13,135	55,258
Depreciation	(3,924)	(15,209)	(2,189)	(21,322)
Net book value at 31st December 1997	5,990	17,000	10,946	33,936

The depreciation charge for the year on assets held under finance leases and hire purchase contracts was £14,529 (1996: £11,401).

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

8	Stocks	1997 £	1996 £
	Raw materials and consumables	140,979	50,223
	Finished goods and goods for resale	<u>136,266</u>	<u>201,886</u>
		<u><u>277,245</u></u>	<u><u>252,109</u></u>
9	Debtors		
	Trade debtors	829,260	694,146
	Amounts owed by related undertakings	625,096	625,096
	Other debtors	78,619	59,996
	Prepayments and accrued income	<u>38,179</u>	<u>20,866</u>
		<u><u>1,571,154</u></u>	<u><u>1,400,104</u></u>
10	Creditors: amounts falling due within one year		
	Trade creditors	716,820	626,806
	Amounts owed to related undertakings	234,113	320,808
	Other taxes and social security	165,465	165,955
	Other creditors	69,413	69,712
	Accruals and deferred income	66,085	34,072
	Finance leases and hire purchase contractors	<u>9,017</u>	<u>23,569</u>
		<u><u>1,260,913</u></u>	<u><u>1,240,922</u></u>
11	Creditors: amounts falling due after more than one year		
	Finance leases and hire purchase contracts	<u>-</u>	<u>9,016</u>
	Obligations under finance leases and hire purchase contracts are analysed as follows:-		
	Due within one year	10,162	26,836
	Due between two and five years	<u>-</u>	<u>10,162</u>
		10,162	36,998
	Less: Future finance charges	<u>(1,145)</u>	<u>(4,413)</u>
		<u><u>9,017</u></u>	<u><u>32,585</u></u>

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

12	Called up share capital	1997		1996	
		Authorised £	Allotted Called Up and Fully Paid £	Authorised £	Allotted Called Up and Fully Paid £
	Ordinary shares of £1 each (Equity)	100	100	100	100
	14% cumulative redeemable preference shares of £1 each (Non-equity)	<u>2,999,900</u>	<u>2,980,000</u>	<u>2,999,900</u>	<u>2,980,000</u>
		<u>3,000,000</u>	<u>2,980,100</u>	<u>3,000,000</u>	<u>2,980,100</u>

The 14% cumulative redeemable preference shares are redeemable in whole or in part at the option of the company, at any time. The holders of these shares have waived and have continued to waive their entitlement to repayment on 31st December 1995, by which date they were due for repayment, or within 10 years subsequent to that date.

13	Reserves	Profit and Loss Account £
	Balance at 1st January 1997	(1,355,739)
	Retained profit for the year	<u>342,450</u>
	Balance at 31st December 1996	<u>(1,013,289)</u>

14	Reconciliation of movements in shareholders' funds	1997 £	1996 £
	Shareholders' funds at 1st January 1997	1,624,361	1,261,290
	Profit/(loss) for the financial year	<u>342,450</u>	<u>263,071</u>
	Shareholders' funds at 31st December 1997	<u>1,966,811</u>	<u>1,624,361</u>

15	Leasing commitments	1997		1996	
		Land and buildings £	Other £	Land and buildings £	Other £
	Commitments due under operating leases for the year to 31st December 1998 are:-				
	Leases expiring:-				
	Within one year	-	-	-	-
	Within one to five years	-	1,966	69,178	-
	After five years	<u>55,000</u>	<u>1,736</u>	<u>-</u>	<u>-</u>
		<u>55,000</u>	<u>3,702</u>	<u>69,178</u>	<u>-</u>

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

16

Capital commitments

1997

£

1996

£

Commitments for capital expenditure at 31st December 1997 were as follows:-

Contracted, not provided

97,225

-

17

Reconciliation of operating profit to net cash inflow from operating activities

Operating profit

339,441

256,853

Depreciation

29,910

43,834

Amortisation of trademarks

56,250

21,875

(Increase)/decrease in stocks

(25,136)

43,561

Decrease/(increase) in debtors

(164,894)

168,248

(Decrease)/increase in creditors

34,544

(423,809)

Net cash inflow from operating activities

270,115

110,562

18

Reconciliation of net cash flow to movement in net debt

£

Increase in cash in the year

185,431

Cash outflow from decrease in debt and leasing finance

23,568

Change in net debt resulting from cash flows

208,999

New finance leases

-

Movement in net debt in year

208,999

Net debt at 1st January 1996

(29,099)

Net debt at 31st December 1996

179,900

19

Analysis of changes in net debt

At 1st

January 1997

Cash flow

At 31st

December 1997

£

£

£

Cash at bank and in hand

3,486

185,431

188,917

Finance leases

(32,585)

23,568

(9,017)

(29,099)

208,999

179,900

20

Deferred taxation

A trademark acquired from a fellow subsidiary company during the year ended 31st December 1996 was transferred for tax purposes at its original cost. In the event of it being disposed of for its book amount, a tax liability of £262,500 would arise.

21

Charges on assets

Griffin Factors Limited holds a fixed charge over the company's book debts.

NETWORK MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31st December 1997

(continued)

22 Pensions

The company operates a pension scheme on behalf of employees. Contributions are made to an externally funded scheme and are charged to the profit and loss account when payable. The scheme does not provide defined benefits and accordingly the company has no obligation to meet unfunded liabilities.

23 Related party transactions

The company was under the control of Mr J.D. Kidd, the director, throughout the period. Transactions entered into during the year between the company and entities controlled by Mr J.D. Kidd are disclosed in note 3 to the financial statements.

NETWORK MANAGEMENT LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1997

	1997		1996	
	£	£	£	£
Sales		4,667,863		4,330,308
Less: Cost of sales		(1,836,848)		(1,499,488)
Royalties payable		<u>(271,576)</u>		<u>(265,331)</u>
Gross profit		2,559,439		2,565,489
Selling and distribution costs:				
Advertising and promotions	612,064		453,317	
Travelling and subsistence	21,658		21,296	
Motor expenses	31,760		31,832	
Entertainment	600		587	
Carriage	60,515		76,421	
Discounts	-		-	
Salaries	586,562		572,409	
Staff recruitment costs	11,586		4,869	
Temporary staff	1,019		278	
Packaging	6,950		10,289	
Telephone	6,651		8,725	
Printing, postage and stationery	9,825		10,491	
Subscriptions	260		459	
Bad debts	-		-	
Other warehouse costs	53,764		39,073	
Sundry	1,119		653	
Exceptional marketing costs	<u>(30,000)</u>	<u>(1,374,333)</u>	<u>203,083</u>	<u>(1,433,782)</u>
		1,185,106		1,131,707
Administrative costs:				
Rent	47,603		68,932	
Computer maintenance costs	16,724		18,456	
Administration salaries	422,563		372,191	
Staff recruitment costs	-		2,904	
Insurance	44,154		42,349	
Repairs and renewals	15,424		14,035	
Motor expenses	10,236		9,359	
Telephone	15,128		19,204	
Temporary staff	26		6,376	
Printing, postage and stationery	26,441		22,831	
Subscriptions	13,898		14,078	
Depreciation	29,910		43,834	
Amortisation of trade mark	56,250		21,875	
Audit and accountancy	26,100		18,534	
Legal and professional	22,010		33,842	
Entertainment	1,450		1,342	
Travelling and subsistence	20,258		13,186	
Utilities	3,621		33,521	
Sundries	10,589		23,939	
Sundry income	<u>(5,890)</u>	<u>(776,495)</u>	<u>(1,956)</u>	<u>(778,832)</u>
Factoring administration charges	18,560		36,145	
Bank charges	(17,717)		8,652	
Leasing charges	68,327		51,225	
Interest payable	6,237		12,143	
Interest receivable	<u>(9,246)</u>	<u>(66,161)</u>	<u>(1,594)</u>	<u>(106,571)</u>
Profit on sale of fixed assets		-		<u>16,767</u>
Profit for the year		<u>342,450</u>		<u>263,071</u>