

COMPANY NO: 2849316

**REGISTRAR'S
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AVD COSMETICS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30th JUNE, 1997



**FSPG
CHARTERED ACCOUNTANTS
21 BEDFORD SQUARE
LONDON WC1B 3HH**

REGISTERED
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AVD COSMETICS LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997

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DIRECTORS

G.C. Hammer
R. Hammer

SECRETARY

HS (Nominees) Limited

REGISTERED OFFICE

21 Bedford Square
London WC1B 3HH

AUDITORS

FSPG
Chartered Accountants
Registered Auditors
21 Bedford Square
London WC1B 3HH

BANKERS

Barclays Bank plc
123 Arlington Street
London SW1A 1RA

AVD COSMETICS LIMITED**REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements for the year ended 30th June, 1997.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the company during the year were the wholesale and retail distribution of health and beauty products and operating hairdressing salons.

The directors consider the results achieved and the state of affairs to be in line with expectation as the business continues to expand.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 4.

The directors recommend a preference dividend of £2,669 for the year (1996 - £Nil). The directors do not recommend the payment of a ordinary dividend for the year.

It is proposed to transfer the retained profit of £370,814 to reserves.

FIXED ASSETS

Movements in fixed assets are shown in note 8 to the accounts.

EVENTS SINCE THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the company has transferred part of its business to a related undertaking.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year and their interests in the shares of the company were as follows:

	<u>Ordinary shares of £1 each</u>	
	<u>At 30th June, 1997</u>	<u>At 30th June, 1996</u>
G.C. Hammer	-	25
R. Hammer (appointed 3rd October, 1996)	-	-
S.L. Alexander (resigned 21st April, 1997)	-	-
	<u>==</u>	<u>==</u>

The directors' interests in the share capital of the parent company are shown in the financial statements of that company.

AVD COSMETICS LIMITED**REPORT OF THE DIRECTORS**

(Continued)

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the company made charitable donations totalling £1,080 (1996 - £660).

DIRECTORS' RESPONSIBILITIES

Company law requires the directors 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 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;
- follow applicable accounting standards, subject to any material departure disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

BY ORDER OF THE BOARD



HS (NOMINEES) LIMITED
SECRETARY

18th February, 1998

AVD COSMETICS LIMITED**AUDITORS' REPORT TO THE SHAREHOLDERS OF****AVD COSMETICS LIMITED**

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial 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 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 of the state of the company's affairs as at 30th June, 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



FSPG
Chartered Accountants
Registered Auditors
21 Bedford Square
London WC1B 3HH

18th February, 1998

AVD COSMETICS LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 30th JUNE, 1997**

	<u>Notes</u>	<u>1997</u> £	<u>1996</u> £
TURNOVER	2	6,933,237	3,753,512
Cost of sales		(2,525,248)	(1,661,636)
		<hr/>	<hr/>
GROSS PROFIT		4,407,989	2,091,876
Distribution costs		(1,012,534)	(457,764)
Administrative expenses		(2,919,468)	(1,478,983)
		<hr/>	<hr/>
OPERATING PROFIT	3	475,987	155,129
Interest receivable		4,065	-
Interest payable	5	(6,606)	(4,235)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		473,446	150,894
Tax on profit on ordinary activities	6	99,963	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		373,483	150,894
Dividends (including non-equity)	7	(2,669)	-
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR		370,814	150,894
Accumulated losses brought forward		(83,074)	(233,968)
		<hr/>	<hr/>
Retained profit/Accumulated losses carried forward		287,740	(83,074)
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains and losses in 1997 and 1996 other than the profit for the year.

All amounts relate to continuing activities.

The notes set out on pages 7 to 15 from part of these financial statements.

AVD COSMETICS LIMITED**BALANCE SHEET AT 30th JUNE, 1997**

	<u>Notes</u>	<u>1997</u>	<u>1996</u>
		£	£
FIXED ASSETS			
Tangible assets	8	525,519	126,470
CURRENT ASSETS			
Stocks	9	1,076,302	514,947
Debtors	10	881,615	703,009
Cash at bank and in hand		567,676	935
		<u>2,525,593</u>	<u>1,218,891</u>
CREDITORS: Amounts falling due within one year	11	(1,890,129)	(1,089,012)
NET CURRENT ASSETS		<u>635,464</u>	<u>129,879</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,160,983</u>	<u>256,349</u>
CREDITORS: Amounts falling due after more than one year	12	(523,243)	(339,323)
		<u>637,740</u>	<u>(82,974)</u>
CAPITAL AND RESERVES			
Called up share capital	13	350,000	100
Profit and loss account		287,740	(83,074)
SHAREHOLDERS' FUNDS (including non-equity interests)	14	<u>637,740</u>	<u>(82,974)</u>

The financial statements were approved by the Board of Directors on 18th February, 1998 and signed on their behalf by:

G.C. HAMMER

Director

AVD COSMETICS LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 30th JUNE, 1997**

	<u>Notes</u>	<u>1997</u>	<u>1996</u>
		£	£
RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES			
Operating profit		475,987	155,129
Depreciation charges		103,307	33,885
Increase in stock		(561,355)	(199,664)
Increase in debtors		(177,939)	(461,688)
Increase in creditors		60,607	637,210
		<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities		(99,393)	164,872
CASH FLOW STATEMENT			
Returns on investments and servicing of finance	18	(2,541)	(4,235)
Capital expenditure	18	(502,356)	(93,458)
Financing		349,900	-
		<hr/>	<hr/>
		(154,997)	(97,693)
		<hr/>	<hr/>
(Decrease)/increase in cash	19	(254,390)	67,179
Net debt at 1st July, 1996	19	(48,435)	(115,614)
		<hr/>	<hr/>
Net debt at 30th June, 1997	19	(302,825)	(48,435)
		<hr/>	<hr/>

The notes set out on pages 7 to 15 form part of these financial statements.

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997****1. ACCOUNTING POLICIES****(a) Basis of Accounting**

There have been no changes in the accounting policies during the year.

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

(b) Depreciation

Depreciation is calculated to write off the cost less estimated residual values, of tangible fixed assets over their estimated useful lives as follows:

Improvements	-	over the lease term
Fixtures and fittings at concessions	-	over the concession term or three years if no term is stipulated
Other fixtures, fittings and equipment	-	15% per annum on net book value
Motor vehicles	-	25% per annum on net book value

(c) Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences except that no provision is made where it can be reasonably foreseen that such deferred taxation will not be payable in the future.

(d) Stocks

Stocks are valued at the lower of cost and net realisable value.

(e) Foreign Currency

Transactions in foreign currencies are recorded at an arbitrary rate. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

(f) Deferred Expenditure

Expenditure which is identified as directly attributable to setting up costs is carried forward under prepayments. Such expenditure is expected to be written off over a period unlikely to exceed three years.

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

1. ACCOUNTANCY POLICIES (Continued)**(g) Capital Instruments**

The company has adopted the provisions of FRS4 (Capital Instruments). Capital Instruments are accounted for and classified as equity or non-equity share capital, or debt, according to their form.

2. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided net of value added tax.

Turnover and profit before taxation are attributable to the company's principal activity, which arose wholly in the United Kingdom.

	<u>1997</u> £	<u>1996</u> £
3 <u>OPERATING PROFIT</u>		
This is stated after charging:		
Auditors' remuneration	8,500	5,000
Depreciation of owned fixed assets	104,678	33,885
Operating lease charges - plant and equipment	25,244	32,335
- land and buildings	124,156	52,793
Directors' emoluments	33,238	35,000
	<u> </u>	<u> </u>
and after crediting:		
Profit on disposal of tangible fixed assets	1,371	-
	<u> </u>	<u> </u>

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

	<u>1997</u>	<u>1996</u>
	£	£
4. <u>EMPLOYEES</u>		
Staff costs, including directors:		
Wages and salaries	1,662,980	760,359
Social security costs	153,523	69,686
	<u>1,816,503</u>	<u>830,045</u>
	<u> </u>	<u> </u>
The average weekly number of employees, including directors, during the year was:		
	<u>Number</u>	<u>Number</u>
Selling and distribution	111	75
Administration and management	20	15
	<u>131</u>	<u>90</u>
	<u> </u>	<u> </u>
	£	£
Directors' emoluments consist of:		
Compensation for loss of office	5,000	-
Remuneration	28,238	35,000
	<u>33,238</u>	<u>35,000</u>
	<u> </u>	<u> </u>
5. <u>INTEREST PAYABLE</u>		
On bank loans, overdrafts and other loans wholly repayable within five years:		
Bank overdrafts	6,029	3,372
Interest on overdue tax	577	863
	<u>6,606</u>	<u>4,235</u>
	<u> </u>	<u> </u>
6. <u>TAXATION</u>		
U.K. corporation tax at 33%/31% less marginal relief	99,963	-
	<u> </u>	<u> </u>

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

			<u>1997</u> £	<u>1996</u> £
7. <u>DIVIDENDS</u>				
Non-equity shares				
5% redeemable cumulative preference shares				
Final proposed			2,669	-
			<u> </u>	<u> </u>
8. <u>TANGIBLE FIXED ASSETS</u>				
	<u>Improvements</u>	<u>Fixtures, fittings and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	£	£	£	£
<u>Cost</u>				
At 1st July, 1996	-	173,415	28,655	202,070
Additions	66,729	440,967	920	508,616
Disposals	-	-	(13,390)	(13,390)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30th June, 1997	66,729	614,382	16,185	697,296
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Depreciation</u>				
At 1st July, 1996	-	64,860	10,740	75,600
Charge for the year	3,655	98,169	2,854	104,678
Eliminated on disposal	-	-	(8,501)	(8,501)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30th June, 1997	3,655	163,029	5,093	171,777
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Net Book Value</u>				
At 30th June, 1997	63,074	451,353	11,092	525,519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30th June, 1996	-	108,555	17,915	126,470
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

	<u>1997</u>	<u>1996</u>
	£	£
9. <u>STOCKS</u>		
Goods for resale	1,076,302	514,947

There is no significant difference between the purchase price of stocks and their replacement value.

10. DEBTORS

Amounts receivable within one year:

Trade debtors	766,970	614,282
Other debtors	18,105	10,000
Prepayments	95,873	78,727
Advance corporation tax recoverable	667	-
	<u>881,615</u>	<u>703,009</u>

11. CREDITORS

Amounts falling due within one year:

Bank loans (secured)	84,870	2,546
Bank overdrafts (secured)	362,388	39,601
Trade creditors	1,128,269	810,233
Amounts owed to parent company	95,529	130,003
U.K. corporation tax	100,630	-
Other taxes and social security costs	77,547	95,566
Accruals	29,820	4,121
Other creditors	8,407	6,942
Dividends payable	2,669	-
	<u>1,890,129</u>	<u>1,089,012</u>

The bank loans are secured by a fixed and floating charge over the assets of the company.

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
12. CREDITORS		
Amounts falling due after more than one year:		
Falling due between one and two years:		
Bank loans (secured)	92,905	2,546
Loan due to parent company	100,000	332,100
	<u>192,905</u>	<u>334,646</u>
Falling due between two and five years:		
Bank loan (secured)	330,338	4,677
	<u>523,243</u>	<u>339,323</u>

The bank loans are secured by a fixed and floating charge over the assets of the company.

The parent company has postponed repayment of its loan in favour of other creditors.

13. SHARE CAPITAL

	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	No.	No.	£	£
Ordinary shares of £1 each	125,000	1,000	100	100
5% Redeemable Cumulative Preference shares of £1 each	375,000	-	349,900	-
	<u>500,000</u>	<u>1,000</u>	<u>350,000</u>	<u>100</u>

The preference shares are redeemable at par at any time from 30th June, 2001 at the option of the company, subject to one months' notice in writing. They carry no voting rights.

During the year the company issued 349,900 5% Redeemable Cumulative Preference shares of £1 each, fully paid at par.

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

	<u>1997</u> £	<u>1996</u> £
14. <u>SHAREHOLDERS' FUNDS</u>		
(a) Analysis of shareholders' funds		
Attributable to equity shareholders	285,171	(82,974)
Attributable to non-equity shareholders	352,569	-
	<hr/>	<hr/>
Total shareholders' funds	637,740	(82,974)
	<hr/>	<hr/>
(b) Reconciliation of movements in shareholders' funds		
Profit for the financial year	373,483	150,894
Dividends	(2,669)	
Proceeds of issue of non-equity shares	349,900	-
	<hr/>	<hr/>
Net addition to shareholders' funds	720,714	150,894
Opening shareholders' funds	(82,974)	(233,868)
	<hr/>	<hr/>
Closing shareholders' funds	637,740	(82,974)
	<hr/> <hr/>	<hr/> <hr/>

15. ULTIMATE PARENT UNDERTAKING

The directors regard Hammer Holdings Limited as being the ultimate parent undertaking, a company registered in England.

16. EVENTS SINCE THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the company has transferred part of its business to a related undertaking.

AVD COSMETICS LIMITEDNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997

(Continued)

17. RELATED PARTY TRANSACTIONS

The company is controlled by Hammer Holdings Limited, its parent. Ultimate control is vested in Mr. G. Hammer who owns 100% of the share capital of Hammer Holdings Limited.

Management charges payable to Hammer Holdings Limited amounted to £80,000.

At the year end AVD Cosmetics Limited owed Hammer Holdings Limited £100,000 in respect of a long term loan which is interest free (Note 12) and £95,529 in respect of its current account balance (Note 11).

The company also incurred consultancy fees of £22,917 to Mrs. R. Hammer, a director.

Mr. G. Hammer has given personal guarantees in respect of leasing obligations.

	<u>1997</u>		<u>1996</u>	
	£	£	£	£
<u>18. GROSS CASH FLOWS</u>				
Returns on investments and servicing of finance:				
Interest received	4,065		-	
Interest paid	6,606		(4,235)	
	<u> </u>	(2,541)	<u> </u>	(4,235)
		<u> </u>		<u> </u>
Capital expenditure:				
Payments to acquire tangible fixed assets	(508,616)		(93,458)	
Receipts from sales of tangible fixed assets	6,260		-	
	<u> </u>	(502,356)	<u> </u>	(93,458)
		<u> </u>		<u> </u>
Financing:				
Issuing of Redeemable Cumulative Preference shares		349,900		-
		<u> </u>		<u> </u>

AVD COSMETICS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE, 1997**

(Continued)

	1st July <u>1996</u> £	<u>Cash flows</u> £	30th June <u>1997</u> £
19. <u>ANALYSIS OF CHANGES IN NET DEBT</u>			
Cash at bank and in hand	935	566,741	567,676
Bank overdraft	(39,601)	(322,787)	(362,388)
Bank loans:			
due within one year	(2,546)	(82,324)	(84,870)
due after one year	(7,223)	(416,020)	(423,243)
	<u>(48,435)</u>	<u>(254,390)</u>	<u>(302,825)</u>
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>