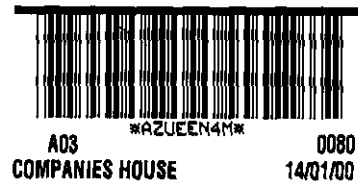


**REGISTRARS
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**LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998**



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

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LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
COMPANY INFORMATION

Directors	G.C. Hammer R. Hammer
Secretary	HS (Nominees) Limited
Company number	2849316
Registered office	21 Bedford Square London WC1B 3HH
Auditors	FSPG 21 Bedford Square London WC1B 3HH
Bankers	Barclays Bank plc 123 Arlington Street London SW1A 1RA

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
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Notes to the financial statements	8 - 15
The following pages attached are for management information purposes only and do not form part of the statutory financial statements:	
Combined detailed trading and profit and loss account	16 - 17
Salon detailed trading and profit and loss account	18

**LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 1998**

The directors present their report and financial statements for the year ended 30 June 1998.

Principal activities and review of the 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.

On 9 July 1999 the company changed its name to Luxe Brand Limited and on 29 September 1999 changed its name to Luxe Brands Limited.

The directors consider the results achieved and the state of affairs to be satisfactory as the business continues to expand.

Results and dividends

The results for the year are set out on page 4.

A preference dividend amounting to £17,495 (1997 - £2,669) was paid during the year. The directors do not recommend the payment of an ordinary dividend for the year.

Post balance sheet events

Subsequent to the Balance Sheet date the company transferred salon operations to its wholly owned subsidiary, Insalons Limited and sold its sole agency of Aveda products to a third party.

Year 2000

We have identified the key risks to the business and have developed a plan to minimise their impact. We have considered not only our own systems but also those of our major suppliers and customers. Although no organisation can guarantee that no year 2000 problems will arise, we believe that, having identified and removed the major risks to the business in accordance with the plan we have developed, it will be possible to quickly resolve any such problems as may arise without significant additional costs.

Directors

The following directors have held office since 1 July 1997:

G.C. Hammer

R. Hammer

Directors' interests

The directors do not have any interests in the shares of the company. Their interests in the shares of the parent company are as shown in the Director's Report of Hammer Holdings Limited.

Charitable contributions

During the year the company made charitable donations of £861 (1997 : £1,080).

Auditors

The auditors, FSPG, are deemed to be re-appointed in accordance with section 386 of the Companies Act 1985.

**LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 1998**

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;
- 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

8 December 1999

**LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
AUDITORS' REPORT
TO THE SHAREHOLDERS OF LUXE BRANDS 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 page 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 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 30 June 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



FSPG

8 December 1999

Chartered Accountants
Registered Auditor

21 Bedford Square
London
WC1B 3HH

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 1998

	Notes	1998 £	1997 £
Turnover	2		
Continuing operations		8,611,160	6,933,237
Acquisitions		<u>1,552,987</u>	<u>-</u>
		10,164,147	6,933,237
 Cost of sales		 <u>(3,032,559)</u>	 <u>(2,525,248)</u>
 Gross profit		 7,131,588	 4,407,989
 Distribution costs		 (1,960,155)	 (1,012,534)
Administrative expenses		(5,051,322)	(2,919,468)
Other operating income		<u>60,000</u>	<u>-</u>
 Operating profit	4		
Continuing operations		581,572	475,987
Acquisitions		<u>(401,461)</u>	<u>-</u>
		180,111	475,987
 Other interest receivable and similar income	5	 10,184	 4,065
Interest payable and similar charges	6	<u>(91,026)</u>	<u>(6,606)</u>
 Profit on ordinary activities before taxation		 99,269	 473,446
 Tax on profit on ordinary activities	7	 <u>(38,491)</u>	 <u>(99,963)</u>
 Profit on ordinary activities after taxation		 60,778	 373,483
 Dividends (including those in respect of non-equity shares)	8	 <u>(17,495)</u>	 <u>(2,669)</u>
 Retained profit for the year	16	 <u><u>43,283</u></u>	 <u><u>370,814</u></u>

There are no recognised gains and losses other than those passing through the profit and loss account.

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
BALANCE SHEET
AS AT 30 JUNE 1998

	Notes	1998 £	£	1997 £	£
Fixed assets					
Tangible assets	9		139,401		525,519
Current assets					
Stocks	10	928,334		1,076,302	
Debtors	11	1,081,694		881,615	
Tangible assets	12	735,009		-	
Cash at bank and in hand		58,444		567,676	
		2,803,481		2,525,593	
Creditors: amounts falling due within one year	13	(1,590,123)		(1,890,129)	
Net current assets			1,213,358		635,464
Total assets less current liabilities			1,352,759		1,160,983
Creditors: amounts falling due after more than one year	14		(671,736)		(523,243)
			681,023		637,740
Capital and reserves					
Called up share capital	15		350,000		350,000
Profit and loss account	16		331,023		287,740
Shareholders' funds	17		681,023		637,740
Equity interests			331,123		287,840
Non-equity interests			349,900		349,900
			681,023		637,740

The financial statements were approved by the Board on 8 December 1999


G.C. Hammer
Director

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1998

	1998 £	1997 £
Net cash inflow from operating activities	308,956	132,707
Returns on investments and servicing of finance		
Interest received	10,184	4,065
Interest paid	(91,026)	(6,606)
Non equity dividends paid	(20,164)	-
	<u> </u>	<u> </u>
Net cash outflow for returns on investments and servicing of finance	(101,006)	(2,541)
Taxation	(117,049)	-
Capital expenditure		
Payments to acquire tangible assets	(525,274)	(508,616)
Receipts from sales of tangible assets	3,410	6,260
	<u> </u>	<u> </u>
Net cash outflow for capital expenditure	(521,864)	(502,356)
	<u> </u>	<u> </u>
Net cash outflow before management of liquid resources and financing	(430,963)	(372,190)
Financing		
Issue of preference share capital	-	349,900
New long term bank loan	118,493	416,020
Other new long term loans	30,000	-
Other new short term loans	56,504	82,324
Repayment of other long term loans	-	(232,100)
	<u> </u>	<u> </u>
Net cash inflow from financing	204,997	616,144
	<u> </u>	<u> </u>
(Decrease)/increase in cash in the year	<u><u>(225,966)</u></u>	<u><u>243,954</u></u>

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1998

1	Reconciliation of operating profit to net cash inflow from operating activities	1998	1997
		£	£
	Operating profit	180,111	475,987
	Depreciation of tangible assets	173,196	104,678
	Profit on disposal of tangible assets	(223)	(1,371)
	Decrease/(increase) in stocks	147,968	(561,355)
	Increase in debtors	(200,746)	(177,939)
	Increase in creditors within one year	8,650	292,707
	Net cash inflow from operating activities	308,956	132,707

2	Analysis of net debt	1 July 1997	Cash flow	Other non-cash changes	30 June 1998
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	567,676	(509,232)		58,444
	Bank overdrafts	(362,388)	283,266		(79,122)
		<u>205,288</u>	<u>(225,966)</u>		<u>(20,678)</u>
	Debt:				
	Debts falling due within one year	(84,870)	(56,504)	-	(141,374)
	Debts falling due after one year	(523,243)	(148,493)	-	(671,736)
		<u>(608,113)</u>	<u>(204,997)</u>	<u>-</u>	<u>(813,110)</u>
	Net debt	(402,825)	(430,963)	-	(833,788)

3	Reconciliation of net cash flow to movement in net debt	1998	1997
		£	£
	(Decrease)/increase in cash in the year	(225,966)	243,954
	Cash inflow from increase in debt	(204,997)	(266,244)
	Movement in net debt in the year	(430,963)	(22,290)
	Opening net debt	(402,825)	(380,535)
	Closing net debt	(833,788)	(402,825)

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

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.

1.2 Compliance with accounting standards

The accounts have been prepared in accordance with applicable accounting standards.

1.3 Turnover

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

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Improvements	over the lease term
Fixtures, fittings and equipment	15% per annum on net book value
Motor vehicles	25% per annum on net book value

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

1.7 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

1.8 Foreign currency translation

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

	1998	1997
	£	£
Class of business		
Wholesale	3,933,942	3,249,000
Mail order	9,778	488,000
Retail	4,667,440	3,196,237
Salons	1,552,987	-
	<u>10,164,147</u>	<u>6,933,237</u>

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

3 Cost of sales and net operating expenses

The total figures for continuing operations in 1998 include the following amounts relating to acquisitions: cost of sales £143,770, distribution costs £526,740, administrative expenses £1,283,938.

4 Operating profit	1998	1997
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	173,196	104,678
Operating lease rentals:		
- Plant and machinery	96,632	25,244
Auditors' remuneration	12,225	8,500
	<u> </u>	<u> </u>
5 Other interest receivable and similar income	1998	1997
	£	£
Bank interest	10,184	3,634
Other interest	-	431
	<u> </u>	<u> </u>
	10,184	4,065
	<u> </u>	<u> </u>
6 Interest payable	1998	1997
	£	£
On bank loans and overdrafts	51,484	6,029
On overdue tax	39,542	577
	<u> </u>	<u> </u>
	91,026	6,606
	<u> </u>	<u> </u>
7 Taxation	1998	1997
	£	£
U.K. current year taxation		
U.K. corporation tax at 21% (1997 - 33%)	1,012	99,963
Payment in respect of group relief	17,543	-
	<u> </u>	<u> </u>
	18,555	99,963
Prior years		
U.K. corporation tax	19,936	-
	<u> </u>	<u> </u>
	38,491	99,963
	<u> </u>	<u> </u>

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

8	Dividends	1998 £	1997 £
	Dividends on non-equity shares:		
	Preference paid	17,495	-
	Preference proposed	-	2,669
		<u>17,495</u>	<u>2,669</u>

9	Tangible fixed assets	Improvements £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
	Cost				
	At 1 July 1997	66,729	614,382	16,185	697,296
	Transfer to current assets	(221,145)	(835,727)	-	(1,056,872)
	Additions	154,416	368,858	2,000	525,274
	Disposals	-	(1,780)	(3,170)	(4,950)
	At 30 June 1998	<u>-</u>	<u>145,733</u>	<u>15,015</u>	<u>160,748</u>
	Depreciation				
	At 1 July 1997	3,655	163,029	5,093	171,777
	Transfer to current assets	(8,947)	(312,916)	-	(321,863)
	On disposals	-	(267)	(1,496)	(1,763)
	Charge for the year	5,292	165,194	2,710	173,196
	At 30 June 1998	<u>-</u>	<u>15,040</u>	<u>6,307</u>	<u>21,347</u>
	Net book value				
	At 30 June 1998	<u>-</u>	<u>130,693</u>	<u>8,708</u>	<u>139,401</u>
	At 30 June 1997	<u>63,074</u>	<u>451,353</u>	<u>11,092</u>	<u>525,519</u>

10	Stocks	1998 £	1997 £
	Finished goods and goods for resale	<u>928,334</u>	<u>1,076,302</u>

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

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

11 Debtors	1998	1997
	£	£
Trade debtors	623,199	766,970
Amounts owed by fellow subsidiary undertaking	320,489	-
ACT recoverable	-	667
Other debtors	2,071	18,105
Prepayments and accrued income	135,935	95,873
	<u>1,081,694</u>	<u>881,615</u>

The company has postponed repayment of its loan to the fellow subsidiary undertaking in favour of National Westminster Bank Plc.

12 Current asset investments	1998	1997
	£	£
Transfer from fixed assets (Per note 9)	<u>735,009</u>	<u>-</u>

Amounts transferred to current assets relate to items disposed off subsequent to the year end.

13 Creditors: amounts falling due within one year	1998	1997
	£	£
Bank loans and overdrafts (secured)	220,496	447,258
Trade creditors	1,090,627	1,128,269
Amounts owed to parent company	41,844	95,529
Corporation tax	21,405	100,630
Other taxes and social security costs	161,539	77,547
Other creditors	9,396	8,407
Accruals and deferred income	44,816	29,820
Proposed dividend	-	2,669
	<u>1,590,123</u>	<u>1,890,129</u>
Debt due within one year	<u>141,374</u>	<u>84,870</u>

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

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

14 Creditors: amounts falling due after more than one year	1998	1997
	£	£
Bank loans (secured)	541,736	423,243
Loan due to parent company	130,000	100,000
	<u>671,736</u>	<u>523,243</u>
Analysis of loans		
Wholly repayable within five years	813,110	608,113
	<u>813,110</u>	<u>608,113</u>
Included in current liabilities	(141,374)	(84,870)
	<u>671,736</u>	<u>523,243</u>
Loan maturity analysis		
Between one and two years	163,773	100,000
Between two and five years	507,963	423,243
	<u>671,736</u>	<u>523,243</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 Barclays Bank Plc.

15 Share capital	1998	1997
	£	£
Authorised		
125,000 Ordinary shares of £ 1 each	125,000	125,000
375,000 5% Redeemable Cumulative Preference shares of £ 1 each	375,000	375,000
	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid		
100 Ordinary shares of £ 1 each	100	100
349,900 5% Redeemable Cumulative Preference shares of £ 1 each	349,900	349,900
	<u>350,000</u>	<u>350,000</u>

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

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

16 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 July 1997	287,740
Retained profit for the year	43,283
	<hr/>
Balance at 30 June 1998	331,023
	<hr/> <hr/>

17 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the financial year	60,778	373,483
Dividends	(17,495)	(2,669)
	<hr/>	<hr/>
	43,283	370,814
Proceeds from issue of shares	-	349,900
	<hr/>	<hr/>
Net addition to shareholders' funds	43,283	720,714
Opening shareholders' funds	637,740	(82,974)
	<hr/>	<hr/>
Closing shareholders' funds	681,023	637,740
	<hr/> <hr/>	<hr/> <hr/>

18 Financial commitments

At 30 June 1998 the company had annual commitments under non-cancellable operating leases in respect of plant and machinery as follows:

	1998 £	1997 £
Expiry date:		
Within one year	1,877	-
Between two and five years	86,592	55,803
	<hr/>	<hr/>
	88,469	55,803
	<hr/> <hr/>	<hr/> <hr/>

19 Directors' emoluments

	1998 £	1997 £
Emoluments for qualifying services	-	28,238
Compensation for loss of office	-	5,000
	<hr/>	<hr/>
	-	33,238
	<hr/> <hr/>	<hr/> <hr/>

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

20 Transactions with directors and related parties

In the ordinary course of trading the company sold goods and made purchases amounting to £17,315 and £20,576 respectively to L'Occitane Limited, a company in which G C Hammer is a director and has an interest. At the year end the amount owed by L'Occitane was £5,678.

21 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	1998 Number	1997 Number
Selling and distribution	2	111
Administration and management	30	20
	<u>32</u>	<u>131</u>

Employment costs

	£	£
Wages and salaries	2,891,907	1,662,980
Social security costs	281,879	153,523
	<u>3,173,786</u>	<u>1,816,503</u>

22 Control

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

LUXE BRANDS LIMITED
(FORMERLY AVD COSMETICS LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1998

23 Related party transactions

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

The Company entered into the following transactions with related parties:

	1998	1997
	£	£
Amounts owed to parent company	141,844	427,629
Amounts owed by fellow subsidiary undertaking	320,489	-
Management charges payable to parent company	86,666	80,000
Management charges receivable from fellow subsidiary undertaking	60,000	-
Sales to fellow subsidiary undertaking	89,855	-
Purchases from fellow subsidiary undertaking	60,836	-
Rent received from fellow subsidiary undertaking	26,000	-
Rent paid to parent company	85,000	18,000
Recharge of wages by fellow subsidiary undertaking	15,146	-

Mr G Hammer has given personal guarantees to the Company's bankers in the sum of £125,000 and in respect of leasing obligations.

The fellow subsidiary undertaking is Luxe Limited and Hammer Holdings Limited is the parent company.