Benefit Cosmetics Limited

Report and Financial Statements

31 December 2007

Registered No 3922046

Directors

Jean Danielson
Jane Ford
Sarah Garner
Nicolas Cordier
Hugues Dusseaux
Jean-Andre Rougeot

Secretary

Sarah Garner

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

The Royal Bank of Scotland plc
26 High Street
Chelmsford CM1 1YJ

Solicitors

Laytons
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0LS

Registered Office

Marble Arch House
66-68 Seymour Street
London W1H 5AF

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the year, after taxation, amounted to £1,757,253 (2006 – profit £661,186) The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activity of the company during the year was the wholesale and distribution of cosmetic and skincare products in the United Kingdom The company is also continuing to provide sales support and marketing services for its US parent in the wholesale of cosmetics in Europe The company opened its first UK boutique in 2004 and opened since two new boutiques in 2005, another two in 2006 and five in 2007

Turnover increased by 35% during the year primarily due to the continued development of the brand in the UK along with further openings of five new boutiques in and around London and the launch of its own website, www benefitcosmetics co uk , which has helped promote the brand yet further as well as having a positive impact on the top line

Principal risks and uncertainties

The key commercial risks relate to the continued strength of other brands positioning in the market place

The condition or strength of the retail market also represents a key risk with interest rates and other economic and fiscal drivers influencing consumer spending

Future developments

The company plans to continue expanding its retail operations in 2008 via increased counters in large department stores as well as a further 4 new boutiques, developments in the travel retail sector with expansion into Airport terminal, primarily Gatwick South, Heathrow T5 and Stansted airport as well as continued development of the website

Directors

The directors who served during the year were those listed on page 1

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provided appropriate training to achieve this aim

Employee involvement

Regular meetings are held between local management and employees to allow a free flow of information and ideas These meetings also provide employees with an opportunity to give feedback or inquire about any topics of concern

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and

Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the board

S Garner
Secretary   SGarner 30/10/2008

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 responsible for keeping proper accounting records that 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

ERNST & YOUNG

Independent auditors' report

to the members of Benefit Cosmetics Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant 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 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 other transactions is not disclosed

We read the Directors' Report 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

ERNST & YOUNG

Independent auditors' report

to the members of Benefit Cosmetics Limited

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 2007 and of its profit the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

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Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Turnover	2	41,258,619	30,593,805
Cost of sales		(25,382,625)	(19,691,142)
Gross Profit		15,875,994	10,902,663
Distribution costs		(1,176,173)	(1,067,377)
Administrative expenses		(12,085,590)	(8,748,539)
Operating Profit	3	2,614,231	1,086,747
Interest receivable	6	77,323	59,603
Interest payable	7	(206,056)	(199,355)
Profit on ordinary activities before taxation		2,485,498	946,995
Tax on profit on ordinary activities	8	(728,245)	(285,809)
Profit retained for the financial year		1,757,253	661,186

Statement of total recognised gains and losses

for the year ended 31 December 2007

There are no recognised gains or losses other than the profit of £1,757,253 attributable to the shareholders for the year ended 31 December 2007 (2006 – profit of £661,186)

Balance sheet

at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Intangible assets	9	–	–
Tangible assets	10	2,945,903	2,191,982
Investments	11	1	–
		2,945,904	2,191,982
Current assets			
Stocks	12	7,829,184	3,606,348
Debtors	13	9,299,791	4,978,004
Cash at bank		4,472,209	2,966,370
		21,601,184	11,550,722
Creditors: amounts falling due within one year	14	17,169,273	8,122,142
Net current assets		4,431,911	3,428,580
Total assets less current liabilities		7,377,815	5,620,562
Capital and reserves			
Called up share capital	17	2,000,100	2,000,100
Profit and loss account	18	5,377,715	3,620,462
Equity shareholders' funds	18	7,377,815	5,620,562

S Garner 30/10/2008
Director Garner

Notes to the financial statements

at 31 March 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention

Statement of cash flows

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is a wholly owned subsidiary and the consolidated financial statements in which the company is included are publicly available

Fixed assets

All fixed assets are initially recorded at cost

Intangible assets

Intangible fixed assets are stated at cost less accumulated amortisation Amortisation is provided to write off the value of the intangible fixed assets over a period of three years The carrying values of intangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying values may not be recoverable

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Leasehold improvements	–	5 years
Store fittings	–	3 to 5 years
Office furniture and equipment	–	3 to 7 years
Motor vehicles	–	3 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Stocks

Stocks are stated at the lower of cost and net realisable value

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Pension costs

The company operates a defined contribution pension scheme Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in the UK, Ireland, France and Germany in respect of sales of cosmetics and amounts received and receivable from the company's parent undertaking in respect of sales and marketing support in the UK and Europe It all relates to continuing activities

3. Operating profit

This is stated after charging/(crediting)

		2007	*2006*
		£	*£*
Auditors' remuneration	– audit services	42,530	31,500
	– non audit services (tax services)	14,000	8,000
Depreciation of owned fixed assets		910,033	780,192
Amortisation		–	1,029
		910,033	781,221
Foreign exchange loss/(gain)		(33,032)	117,987
Loss on disposal of Fixed Assets		193,884	–
Operating lease rentals	– land and buildings	490,177	342,723
	– plant and machinery	130,330	107,621

Notes to the financial statements

at 31 December 2007

4. Staff costs

	2007 £	2006 £
Wages and salaries	4,245,003	3,321,710
Social security costs	464,170	274,256
Staff pension contributions (note 15)	45,703	33,490
	4,754,876	3,629,456

The monthly average number of employees during the year was as follows

	2007 No	2006 No
Administrative staff	31	25
Sales staff	209	283
	240	308

5. Directors' emoluments

	2007 £	2006 £
Emoluments	73,702	75,650

6. Interest receivable

	2007 £	2006 £
Bank interest receivable	77,323	59,603

7. Interest payable

	2007 £	2006 £
Interest payable to group undertakings	206,056	199,355

Notes to the financial statements

at 31 December 2007

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007 £	2006 £
Current tax		
UK corporation tax	793,641	336,598
Tax under/(over) provided in previous years	(60,327)	(3,392)
Total current tax (note 8(b))	733,314	333,206
Deferred tax		
Origination and reversal of timing differences (note 8 (c))	(5,069)	(47,397)
Tax on profit on ordinary activities	728,245	285,809

(b) Factors affecting current tax charge

The differences are reconciled below

	2007 £	2006 £
Profit on ordinary activities before taxation	2,485,498	946,995
Profit on ordinary activities for the year multiplied by standard rate of corporation tax in the UK of 30% (2006 – 30%)	745,649	284,099
Disallowed expenses and non-taxable income	14,767	15,555
Capital allowances in arrears of depreciation	36,498	21,188
Adjustments in respect of previous periods	(60,327)	(3,392)
Other timing differences	(3,273)	15,756
Total current tax (note 8(a))	733,314	333,206

Notes to the financial statements

at 31 December 2007

8. Tax (continued)

(c) Deferred tax

	2007	2006
	£	£
Capital allowances in arrears of depreciation	34,167	8,330
Other timing differences	20,678	41,446
Deferred tax asset (note 13)	54,845	49,776

	£
At 31 December 2006	49,776
Profit and loss account	31,008
Adjustments in respect of prior years	(25,939)
At 31 December 2007	54,845

The UK corporation tax rate decreased from 30% to 28% from 1 April 2008 This rate will affect the amount of future tax payments to be made by the company The deferred tax balance has been adjusted in the current year to reflect this change Changes to the UK capital allowances regime will also impact the capital allowance the company can claim The full impact of these changes is still being assessed

9. Intangible fixed assets

	Website licence
	£
Cost	
At 31 December 2006 and 31 December 2007	2,000
Amortisation	
At 31 December 2006 and 31 December 2007	2,000
Net book value	
At 31 December 2006 and 31 December 2007	–

Notes to the financial statements

at 31 December 2007

10. Tangible fixed assets

	Leasehold improvements	*Store fittings*	*Office furniture and equipment*	*Motor vehicles*	*Total*
	£	£	£	£	£
Cost					
At 31 December 2006	220,611	3,969,215	175,163	5,000	4,369,989
Additions	114,760	1,704,416	84,089	–	1,903,265
Disposals	–	(763,818)	(1,721)	–	(765,539)
At 31 December 2007	335,371	4,909,813	257,531	5,000	5,507,715
Depreciation					
At 31 December 2006	82,510	1,988,437	102,060	5,000	2,178,007
Provided during the year	35,891	831,784	42,358	–	910,033
Disposals	–	(525,953)	(275)	–	(526,228)
At 31 December 2007	118,401	2,294,268	144,143	5,000	2,561,812
Net book value					
At 31 December 2007	216,970	2,615,545	113,388	–	2,945,903
At 31 December 2006	138,101	1,980,778	73,103	–	2,191,982

11. Fixed asset investments

	£
At 1 January 2007	–
Acquisition of subsidiary undertakings	1
At 31 December 2007	1

The above investment represents 100% of the issued ordinary share capital of Benefit Cosmetics Ireland Limited, a company registered in Ireland Benefit Cosmetics Limited purchased this share holding on 29th January 2007 Benefit Cosmetics Ireland's principal activity is the wholesale of cosmetics and skincare products within Ireland

12. Stocks

	2007	*2006*
	£	£
Finished goods	7,829,184	3,606,348

The difference between purchase price of stocks and their replacement cost is not material

Notes to the financial statements

at 31 December 2007

13. Debtors

	2007 £	2006 £
Trade debtors	7,888,428	4,502,594
Amounts owed by group undertakings	1,229,461	227,359
Other debtors	127,057	198,275
Deferred tax asset	54,845	49,776
	9,299,791	4,978,004

14. Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	841,035	607,624
Amounts owed to group undertakings	13,257,055	4,807,338
Corporation tax	726,914	401,394
Other taxation and social security	676,000	952,493
Other creditors	1,081,955	818,901
Accruals and deferred income	586,314	534,392
	17,169,273	8,122,142

15. Pensions

The company operates a defined contribution pension scheme for its directors and employees The assets of the scheme are held separately from those of the company in an independently administered fund

The unpaid contributions outstanding at the year end, included in 'Other creditors' (note 14), are £6,259 (2006 – £3,518)

16. Commitments under operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below

	2007		2006	
	Land and buildings £	*Plant and machinery (Other)* £	*Land and buildings* £	*Plant and machinery (Other)* £
Operating leases which expire				
Within one year	–	59,689	273,500	66,764
In two to five years	80,000	103,818	257,500	45,498
In over five years	508,526	–	173,875	–
	588,526	163,507	704,875	112,262

Notes to the financial statements

at 31 December 2007

17. Authorised and issued share capital

Authorised	*2007* £	*2006* £
Ordinary shares	2,100,000	2,100,000

	No	*2007* £	*No*	*2006* £
Ordinary shares of £1 each	2,000,100	2,000,100	2,000,100	2,000,100

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 1 January 2006	100	2,959,276	2,959,376
Profit for the year	–	661,186	661,186
New shares issued	2,000,000	–	2,000,000
At 31 December 2006	2,000,100	3,620,462	5,620,562
Profit for the year	–	1,757,253	1,757,253
At 31 December 2007	2,000,100	5,377,715	7,377,815

19. Related party transactions

The company is a wholly owned subsidiary of Benefit Cosmetics LLC and has taken advantage of the exemption in FRS 8 from disclosing transactions with companies in the Benefit Cosmetics LLC group

The company was recharged £1,610,957 (2006 – £711,627) for administrative expenses by LVMH Parfums & Kosmetik and owed that company £177,800 (2006 – £190,167) at the year end

The company purchased services from and was recharged for administrative expenses by Parfums Givenchy Limited during the year, for which it paid £98,223 (2006 – £135,600) and owed that company £nil (2006 – £nil) at the year end

The company was recharged £49,489 (2006 – £nil) for administrative expenses by Parfums Chirstian Dior AG and owed that company £nil (2006 – £nil) at the year end

The above companies are all fellow subsidiary undertakings in the LVMH Moet Hennessy-Louis Vuitton SA group

The company was recharged £nil (2006 – £71,599) for administrative expenses by LVMH Moet Hennessy-Louis Vuitton SA and owed that company £nil (2006 – £30,839) at the year end

Notes to the financial statements

at 31 December 2007

20. Ultimate parent company and controlling party

The directors regard LVMH Moet Hennessy-Louis Vuitton SA, a company incorporated in France, as the ultimate parent undertaking

Benefit Cosmetics LLC, a company incorporated in USA is the parent of the smallest group of which the company is a member and for which group financial statements are prepared Copies of these financial statements can be obtained from 685, Market Street, 7th Floor, San Francisco, CA 94105

LVMH Moet Hennessy-Louis Vuitton SA is the parent undertaking of the largest group of which Benefit Cosmetics Limited is a member and for which group financial statements are drawn up Copies of these group financial statements are available from 22 Avenue Montaigne, 75008 Paris, France