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BeneFit Cosmetics Limited

Report and Financial Statements

31 December 2003

ERNST & YOUNG

Registered No: 3922046

Directors
Jean Danielson
Jane Ford
Tim Warner
Susan McDonald
Nicolas Cordier
Diane Miles
Hugues Dusseaux

Secretary
Susan McDonald

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
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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 2003.

Results and dividends

The profit for the year, after taxation, amounted to £1,211,562. 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 performed in line with expectations.

Directors

The directors who served the company during the year were as follows:

Jean Danielson	
Jane Ford	
Tim Warner	
Susan McDonald	(appointed 28 February 2003)
Nicolas Cordier	(appointed 1 June 2003)
Diane Miles	(appointed 28 February 2003)
Hugues Dusseaux	(appointed 28 February 2003)
Malcolm Tucker	(resigned 28 February 2003)
Richard De Warren	(resigned 28 February 2003)
Barth Adams	(resigned 28 February 2003)

There are no directors' interests requiring disclosure under the Companies Act 1985.

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

Susan McDonald
Secretary

14 JAN 2005

Statement of directors' responsibilities in respect of the financial statements

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; 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 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.

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Independent auditors' report

to the members of BeneFit Cosmetics Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared on the basis of 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 United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 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 United Kingdom 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.

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Independent auditors' report

to the members of BeneFit Cosmetics Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

20 January 2005

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £	Restated 2002 £
Turnover	2	16,596,840	9,437,233
Cost of sales		9,087,325	5,710,833
Gross profit		7,509,515	3,726,400
Distribution costs		507,628	340,980
Administrative expenses		5,287,348	2,878,543
Operating profit	3	1,714,539	506,877
Bank interest receivable		21,736	11,898
Interest payable and similar charges	6	–	(62,254)
		21,736	(50,356)
Profit on ordinary activities before taxation		1,736,275	456,521
Tax on profit on ordinary activities	7	524,713	126,850
Profit retained for the financial year		1,211,562	329,671

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £1,211,562 attributable to the shareholders for the year ended 31 December 2003 (2002 - profit of £329,671).

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Balance sheet
at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	8	866	1,500
Tangible assets	9	1,249,615	765,642
		1,250,481	767,142
Current assets			
Stocks	10	2,026,940	1,185,062
Debtors	11	2,186,763	780,372
Cash at bank		2,383,373	2,282,434
		6,597,076	4,247,868
Creditors: amounts falling due within one year	12	6,129,389	4,506,458
Net current assets/(liabilities)		467,687	(258,590)
Total assets less current liabilities		1,718,168	508,552
Provisions for liabilities and charges	14	23,234	25,180
		1,694,934	483,372
Capital and reserves			
Called up share capital	16	100	100
Profit and loss account	17	1,694,834	483,272
Equity shareholders' funds	17	1,694,934	483,372

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Jane Ford
Director

14 JAN 2005

Notes to the financial statements
at 31 December 2003

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention.

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

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 2003

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:

	2003 £	2002 £
Auditors' remuneration - audit services	25,000	15,000
Amortisation	634	–
Depreciation of owned fixed assets	287,388	168,622
Loss on disposal of fixed assets	89,548	–
Operating lease rentals - land and buildings	13,905	17,050
- plant and machinery	73,320	50,147

2002 cost of sales and administrative expenses have been restated to more accurately allocate the company's costs between profit and loss account headings. As a result, cost of sales has increased by £1,249,077 from £4,461,756 to £5,710,833 and administrative expenses have decreased by £1,590,057 from £4,468,600 to £2,878,543. The remaining £340,980 has been transferred to distribution costs.

Notes to the financial statements
at 31 December 2003

4. Staff costs

	2003 £	2002 £
Wages and salaries	876,528	765,542
Social security costs	90,178	96,490
Staff pension contributions (note 13)	8,005	7,586
	974,711	869,618

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

	2003 No.	2002 No.
Administrative staff	7	6
Selling staff	33	25
	40	31

5. Directors' emoluments

	2003 £	2002 £
Emoluments	46,813	82,298

6. Interest payable and similar charges

	2003 £	2002 £
Interest payable to other group companies	–	62,254

7. Taxation

(a) Tax on profit on ordinary activities
The tax charge is made up as follows:

	2003 £	2002 £
Current tax:		
UK corporation tax	526,937	102,000
Tax over provided in previous years	(278)	(330)
Total current tax (note 7(b))	526,659	101,670
Deferred tax:		
Origination and reversal of timing differences	(1,946)	25,180
Tax on profit on ordinary activities	524,713	126,850

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Notes to the financial statements
at 31 December 2003

7. Taxation (continued)

(b) Factors affecting current tax charge

The differences are reconciled below:

	2003 £	*2002* £
Profit on ordinary activities before taxation	1,736,275	456,521
Profit on ordinary activities for the year multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	520,883	136,956
Disallowed expenses and non-taxable income	4,107	3,558
Capital allowances in arrears/(excess) of depreciation	1,947	(10,208)
Other timing differences	–	(28,584)
Adjustments in respect of previous periods	(278)	(330)
Others	–	278
Total current tax (note 7(a))	526,659	101,670

(c) Deferred tax

	2003 £	*2002* £
Capital allowances in advance of depreciation	(37,900)	(39,846)
Other timing differences	14,666	14,666
Provision for deferred taxation	(23,234)	(25,180)

	£
At 1 January 2003	(25,180)
Profit and loss account movement arising during the year	1,946
At 31 December 2003	(23,234)

8. Intangible fixed assets

	Website licence £
Cost:	
At 1 January 2003 and 31 December 2003	1,500
Amortisation:	
At 1 January 2003	–
Provided during the year	634
At 31 December 2003	634
Net book value:	
At 31 December 2003	866
At 1 January 2003	1,500

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Notes to the financial statements
at 31 December 2003

9. Tangible fixed assets

	Leasehold improvements £	*Store fittings* £	*Office furniture and equipment* £	*Motor vehicles* £	*Total* £
Cost:					
At 1 January 2003	44,080	936,227	45,589	5,000	1,030,896
Additions	2,500	842,249	16,160	–	860,909
Disposals	–	(125,722)	–	–	(125,722)
At 31 December 2003	46,580	1,652,754	61,749	5,000	1,766,083
Depreciation:					
At 1 January 2003	4,801	240,039	16,942	3,472	265,254
Provided during the year	7,463	268,219	10,178	1,528	287,388
Disposals	–	(36,174)	–	–	(36,174)
At 31 December 2003	12,264	472,084	27,120	5,000	516,468
Net book value:					
At 31 December 2003	34,316	1,180,670	34,629	–	1,249,615
At 1 January 2003	39,279	696,188	28,647	1,528	765,642

10. Stocks

	2003 £	*2002* £
Finished goods	2,026,940	1,185,062

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

11. Debtors

	2003 £	*2002* £
Trade debtors	1,879,468	663,816
Amounts owed by group undertakings	168,169	50,070
Other debtors	139,126	66,486
	2,186,763	780,372

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Notes to the financial statements
at 31 December 2003

12. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	694,090	282,948
Amounts owed to group undertakings	3,657,320	3,095,675
Amounts owed to ultimate parent undertaking	295,355	178,348
Corporation tax	427,392	102,000
Other taxation and social security	617,878	428,691
Other creditors	418,330	418,796
Accruals and deferred income	19,024	–
	6,129,389	4,506,458

13. 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 'Others creditors' (note 12), are £1,292 (2002 - £300).

14. Provisions for liabilities and charges

	Deferred taxation £
At 1 January 2003	25,180
Profit and Loss Account movement arising during the year	(1,946)
At 31 December 2003	23,234

15. Commitments under operating leases
At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £	2003 Other £	2002 Land and buildings £	2002 Other £
Operating leases which expire:				
Within one year	–	5,904	–	6,028
In two to five years	18,000	60,587	–	72,238
In over five years	–	–	17,500	–
	18,000	66,491	17,500	78,266

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Notes to the financial statements
at 31 December 2003

16. Share capital

		Authorised
	2003	*2002*
	£	*£*
Ordinary shares of £1 each	100,000	100,000

		Allotted, called up and fully paid		
		2003		*2002*
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	100	100	100	100

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 January 2002	100	153,601	153,701
Profit for the year	–	329,671	329,671
At 31 December 2002	100	483,272	483,372
Profit for the year	–	1,211,562	1,211,562
At 31 December 2003	100	1,694,834	1,694,934

18. 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 sold goods in the normal course of business to Sephora UK Limited and Sephora SA for £583,212 (2002 - £379,939), and was owed £119,042 (2002 - £50,070) by those companies at the year end.

The company was recharged £360,926 (2002 - £279,704) for administrative expenses by LVMH Parfums & Kosmetik and owed that company £45,355 (2002 - £178,348) at the year end.

The company provided administrative services to Fresh Cosmetics Limited and Fresh SAS during the year, for which it was paid £238,991 and was owed £48,792 by those companies at the year end.

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

Notes to the financial statements
at 31 December 2003

19. Ultimate parent company

The directors regard LVMH Moët 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 Moët 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.

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