
ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

COMPANY INFORMATION

DIRECTOR	J F Owen
REGISTERED NUMBER	05094961
REGISTERED OFFICE	Ventura House Bullsbrook Road Hayes Middlesex UB4 0UJ
INDEPENDENT AUDITOR	Nexia Smith & Williamson Chartered Accountants & Statutory Auditor 4th Floor Cumberland House 15-17 Cumberland Place Southampton SO15 2BG
BANKERS	National Westminster Bank plc 250 Regent Street London Inner London W1B 3BN
SOLICITORS	Diserio Martin O'Connor & Castiglioni LLP 1 Atlantic Street Stamford USA CT 06901

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

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ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the Strategic Report for Original Additions (Beauty Products) Limited for the year ended 31 December 2019.

Principal activity

The Company's principal activity during the year was that of the design, production and distribution of beauty products. The Company's principal brands are Eylure, Elegant Touch and Salon Systems.

Business review

In 2019 sales were £41.7 million, up £1 million from 2018, or 3%. Both the consumer and international divisions saw improved sales, with growth largely coming from increased distribution. In 2020 we will be continuing to innovate new products designed to appeal to consumers, as well as selectively reviewing our wholesale and recommended high street pricing for select product categories.

Gross margin declined from 40% in 2018 to 36% in 2019. This change in gross margin is primarily attributable to foreign currency exchange rate movements, as the majority of our products are procured from vendors that price their goods in US dollars. The GBP was weaker vs the USD in 2019 as compared to 2018, increasing cost of sales and negatively impacting gross margin.

In 2018 we began the process of preparing for the departure of the United Kingdom from the European Union. Incremental costs incurred related to such preparation, consisting primarily of product compliance and registration activities, were minimal in 2018 and 2019, and continue into 2020. As the terms of the UK departure have not yet been established there can be no guarantee that all needed measures have been taken but management and the board believe our readiness preparation activities to be appropriate.

Financial key performance indicators

The Directors monitor the following KPIs:

- Gross margin - 36% (2018: 40%)
- Percentage of revenue from overseas markets - 17% (2018: 18%)

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Section 172

The Directors of the Company must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as whole and, in doing so, have regards (amongst other matters) to:

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members/shareholders of the company.

Decision Making and Governance

Within Original Additions (Beauty Products) Limited the Directors fulfil their duties, as summarised above, through a corporate governance structure that delegates day-to-day decision making to the employees of the Company. In managing risks and exploiting opportunities the Company seeks to balance market share, retailer and consumer satisfaction, brand perception, and the financial well being of the Company. Actions yielding short terms gains are not taken if long term ramifications are detrimental to any of these measures.

Employees

The Company is committed to be a responsible business. Our behaviour is aligned with the expectations of our employees, customers, and shareholders. Our average tenure of employee is 6.3 years, and 37.7% of our employees have been employed by us for at least five years.

Business Relationships

Our strategy prioritises organic growth in the UK and internationally, and securing new customers for the Company. To do this we need to develop and maintain strong customer and distributor relationships. We also need to develop and maintain close relationships with our suppliers, many of whom we have worked with for a number of years, to foster innovation.

Community and Environment

The Company's approach is to use its position, as far as it can and on a proportionate and responsible basis, as an employer and distributor of beauty products to create positive change for the people and communities with which we interact.

Standards of Business Conduct

We are committed to conducting business with high ethical standards, including compliance with all applicable laws and regulations.

Balancing Interests of Diverse Shareholders

As we are a wholly owned subsidiary of our US based parent company, Parfums de Coeur Ltd, this point is not applicable.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

This report was approved by the board and signed on its behalf.

John F Owen

John F Owen (Dec 4, 2020 07:29 EST)

J F Owen
Director

Date: 04/12/2020

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to £2,316,681 (2018: £3,354,896).

No dividends were paid or proposed in the year (2018: £Nil).

Directors

The directors who served during the year were:

J F Owen

J Stammer (resigned 1 February 2020)

M A Wood (resigned 8 April 2019)

Financial risk management

Mitigation of foreign currency risk

An appreciable portion of the Company's purchases are made in US dollars and, to protect the value of these purchases against currency fluctuations, dollar purchases are covered by forward foreign exchange contracts. There were forward contracts totalling \$7.8m in place at 31 December 2019 (2018: \$Nil). In 2019 they had an average cost of £1:\$1.318 compared to the market rate of £1:\$1.321.

Mitigation of credit risk

The Company regularly reviews the outstanding debts to reduce the likelihood of bad debt losses.

Liquidity risk

The liquidity risk is managed through forecasting the Company's future cash flow requirements and maintaining sufficient cash reserves.

Future developments

The Company has leased executive and administrative offices, as well as a warehouse, which is currently located in Hayes, UK. In November 2020, the Company announced the strategic decision to exit this facility and transition to a new lease for office space, with the warehousing activity to be outsourced to a third-party, all in mid-2021. We estimate that in 2021 we will incur approximately £1.2 Million of one-time move costs, as well as redundancy and severance costs associated with this relocation.

Post balance sheet events

In the period since 31 December 2019 a global pandemic, COVID-19, has emerged. This led to some downward pressure in sales in the first half of 2020, as a result of the temporary closure of certain retail and salon customers. While demand has begun to stabilise in the second half of 2020, there are uncertain risks to the Company from the global spread of COVID-19. As a result, the directors are unable to give an estimate as to the financial impact of the COVID-19 pandemic.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Disclosure of information to auditor

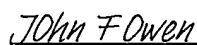
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Nexia Smith & Williamson, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.


John F Owen (Dec 4, 2020 07:29 EST)

J F Owen
Director

Date: 04/12/2020

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors are responsible for preparing the Strategic Report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 for the Company's financial statements and then apply them consistently;
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

Opinion

We have audited the financial statements of Original Additions (Beauty Products) Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Annual Report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

Nexia Smith & Williamson

Nexia Smith & Williamson (Dec 4, 2020 15:23 GMT)

Alan Waters (Senior Statutory Auditor)

for and on behalf of

Nexia Smith & Williamson

Chartered Accountants

Statutory Auditor

4th Floor Cumberland House

15-17 Cumberland Place

Southampton

SO15 2BG

Date: 04/12/2020

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Turnover	4	41,659,332	40,640,975
Cost of sales		(26,719,440)	(24,504,773)
Gross profit		14,939,892	16,136,202
Administrative expenses		(11,872,100)	(12,570,129)
Fair value movement on foreign exchange forward contracts		(82,807)	51,558
Operating profit	5	2,984,985	3,617,631
Interest receivable and similar income		-	45
Profit before tax		2,984,985	3,617,676
Tax on profit	8	(668,304)	(262,780)
Profit after tax		2,316,681	3,354,896
Retained earnings at the beginning of the year		26,609,776	23,254,880
Profit for the year		2,316,681	3,354,896
Retained earnings at the end of the year		28,926,457	26,609,776

The notes on pages 12 to 28 form part of these financial statements.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED
REGISTERED NUMBER:05094961

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	9	1,655,734	2,025,058
Tangible assets	10	223,134	260,163
Investments	11	2,452	2,452
		<u>1,881,320</u>	<u>2,287,673</u>
Current assets			
Stocks	12	8,477,463	8,154,709
Debtors: amounts falling due within one year	13	19,247,150	19,181,430
Cash at bank and in hand	14	7,215,107	2,762,253
		<u>34,939,720</u>	<u>30,098,392</u>
Creditors: amounts falling due within one year	15	(7,366,495)	(5,315,689)
Net current assets		<u>27,573,225</u>	<u>24,782,703</u>
Total assets less current liabilities		<u>29,454,545</u>	<u>27,070,376</u>
Provisions for liabilities			
Deferred tax	16	(3,488)	-
Other provisions	17	(64,000)	-
		<u></u>	<u></u>
Net assets		<u>29,387,057</u>	<u>27,070,376</u>
Capital and reserves			
Called up share capital	18	821	821
Share premium account	19	100,072	100,072
Capital redemption reserve	19	359,707	359,707
Retained earnings	19	28,926,457	26,609,776
Shareholders' funds		<u>29,387,057</u>	<u>27,070,376</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

John F Owen
John F Owen (Dec 4, 2020 07:29 EST)

J F Owen
Director

Date: 04/12/2020

The notes on pages 12 to 28 form part of these financial statements.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

Original Additions (Beauty Products) Limited is a private company, limited by shares, domiciled and incorporated in England and Wales (registered number: 05094961). The registered office address is Ventura House, Bullsbrook Road, Hayes, Middlesex, UB4 0UJ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

2.2 Exemptions under the reduced disclosure framework

The Company has taken advantage of the following exemptions available under FRS 102:

- the exemption from preparing a statement of cash flows; and
- reduced disclosures for share-based payments and financial instruments (as equivalent disclosures have been given in the consolidated financial statements of PDC Brands UK Limited).

2.3 Exemption from preparing consolidated financial statements

The Company is a parent company that is also a subsidiary included in the consolidated financial statements of its ultimate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.4 Going concern

As the impact of the coronavirus pandemic evolves the Board will continue to review the potential risks to the Company and implement any actions needed to minimise them. The Board has reviewed forecasts and further information that has reassured it that there is a reasonable expectation that the Company will have adequate cash resources to meet its obligations as they fall due for a period of at least twelve months after the date on which the report and financial statements are signed. Also, if required, support from the Parent Company is available. For these reasons, the Company continues to adopt the going concern basis in the financial statements.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.6 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the profit or loss on a straight-line basis over the lease term.

2.7 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis to the Statement of Income and Retained Earnings over its useful economic life of 20 years.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.8 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	- over the term of the lease
Fixtures, fittings and office equipment	- 25% straight-line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value, and are shown net of provisions for slow moving and obsolete stocks. Costs include materials, costs of assembly, freight and duty costs. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Income and Retained Earnings.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.11 Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade and other debtors and creditors are classified as basic financial instruments and measured at initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the Company's cash management.

Derivative financial instruments are classified as other financial instruments. They are measured at fair value on initial recognition and at the end of each reporting period, with changes in fair value recognised in the Statement of Income and Retained Earnings.

Financial liabilities and equity instruments issued by the Company are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable to the bank, which is ordinarily equal to the proceeds received net of direct issue costs. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.13 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Income and Retained Earnings in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are evaluated at each reporting date and are based on historical experience as adjusted for current market conditions and other factors. Management makes estimates and assumptions concerning the future in preparing the financial statements and the actual results will not always reflect the accounting estimates made. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Company are outlined below.

Stock provision

At each reporting date, the Company's stock holding (£8,477,463 as at 31 December 2019 (2018: £8,154,709)) is analysed to identify items which may be obsolete and a provision is made against those items.

Debtor provision

At each reporting date, the Company's trade debtor balance (£3,766,764 as at 31 December 2019 (2018: £4,041,782)) is reviewed to identify balances against which specific provisions are required.

Retrospective and Promotional Discounts

Certain promotions are funded retrospectively, the cost of these promotions cannot be confirmed until the promotions are concluded and the customer submits a claim. At each reporting date, an estimate of the outstanding and uninvoiced charges is provided for in the Company's accounts.

4. Turnover

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	34,586,163	33,341,597
Rest of Europe	4,373,218	3,983,695
Rest of the World	2,699,951	3,315,683
	<u>41,659,332</u>	<u>40,640,975</u>

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5. Operating profit

The operating profit is stated after charging:

	2019 £	2018 £
Depreciation of tangible fixed assets	98,882	173,693
Amortisation of intangibles, including goodwill	369,324	369,324
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	43,160	41,905
Exchange differences loss/(gain)	190,784	(79,564)
Operating lease rentals	747,824	611,116

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of the parent company.

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2019 £	2018 £
Wages and salaries	3,262,816	3,401,550
Social security costs	377,011	328,234
Cost of defined contribution scheme	143,721	119,136
	3,783,548	3,848,920

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

	2019 No.	2018 No.
Production and distribution	34	36
Sales and marketing	33	35
Office and administration	14	15
	81	86

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

7. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	90,089	183,587
Directors pension costs	15,923	18,346
Compensation for loss of office	117,500	-
	<u>223,512</u>	<u>201,933</u>

During the year retirement benefits were accruing to 1 director (2018: 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £90,089 (2018: £183,587).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £15,923 (2018: £18,346).

8. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the period	672,497	229,497
Adjustments in respect of previous periods	(31,689)	5
Total current tax	<u>640,808</u>	<u>229,502</u>
Deferred tax		
Origination and reversal of timing differences	(2,333)	33,278
Adjustments in respect of prior periods	29,829	-
Total deferred tax	<u>27,496</u>	<u>33,278</u>
Taxation on profit on ordinary activities	<u>668,304</u>	<u>262,780</u>

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018 - *lower than*) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	<u>2,984,985</u>	<u>3,617,676</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	567,147	687,358
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	102,742	72,938
Adjustments to tax charge in respect of prior periods	(31,689)	5
Adjustments to tax charge in respect of previous periods - deferred tax	29,829	-
Change in deferred tax rate	275	(3,916)
Group relief	-	(493,605)
Total tax charge for the year	<u>668,304</u>	<u>262,780</u>

Factors that may affect future tax charges

In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporate tax rate from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted rate of 17%.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

9. Intangible assets

	Goodwill £
Cost	
At 1 January 2019	7,386,411
At 31 December 2019	<u>7,386,411</u>
Amortisation	
At 1 January 2019	5,361,353
Charge for the year	369,324
At 31 December 2019	<u>5,730,677</u>
Net book value	
At 31 December 2019	<u>1,655,734</u>
<i>At 31 December 2018</i>	<u><u>2,025,058</u></u>

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Tangible fixed assets

	Leasehold improvements £	Fixtures, fittings and office equipment £	Total £
Cost			
At 1 January 2019	163,905	884,501	1,048,406
Additions	-	61,853	61,853
Disposals	(24,020)	(329,588)	(353,608)
At 31 December 2019	<u>139,885</u>	<u>616,766</u>	<u>756,651</u>
Depreciation			
At 1 January 2019	117,785	670,458	788,243
Charge for the year	19,811	79,071	98,882
Disposals	(24,020)	(329,588)	(353,608)
At 31 December 2019	<u>113,576</u>	<u>419,941</u>	<u>533,517</u>
Net book value			
At 31 December 2019	<u>26,309</u>	<u>196,825</u>	<u>223,134</u>
At 31 December 2018	<u>46,120</u>	<u>214,043</u>	<u>260,163</u>

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

11. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2019	2,452
At 31 December 2019	<u>2,452</u>

Subsidiary undertakings

The following were direct subsidiary undertakings of the Company:

Name	Principal activity	Class of shares	Holding
Eylure Limited	Dormant	Ordinary	100%
Naturelle Limited	Dormant	Ordinary	100%
City Chick Limited	Dormant	Ordinary	100%
Nail Basics Limited	Dormant	Ordinary	100%
Salon System Limited	Dormant	Ordinary	100%
Original Additions Limited	Dormant	Ordinary	100%
Original Additions LLC	Dormant	Ordinary	100%

The registered office address of the UK subsidiaries (Eylure Limited, Naturelle Limited, City Chick Limited, Nail Basics Limited, Salon System Limited and Original Additions Limited) is Ventura House, Bullsbrook Road, Hayes, Middlesex, UB4 0UJ.

The registered office address of the US subsidiary (Original Additions LLC) is Cogency Global Inc., 850 New Burton Road Suit 201, Dover, Kent, 19904 DE.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. Stocks

	2019 £	2018 £
Raw materials and consumables	280,157	325,245
Finished goods and goods for resale	8,197,306	7,829,464
	<u>8,477,463</u>	<u>8,154,709</u>

An impairment loss of £199,276 (2018: credit of £25,665) was recognised in cost of sales in relation to the movement in provision against stock during the year due to slow-moving and obsolete stock.

13. Debtors

	2019 £	2018 £
Trade debtors	3,766,764	4,041,782
Amounts owed by group undertakings	14,136,073	13,541,245
Other debtors	241,848	9,954
Prepayments and accrued income	1,102,465	936,974
Tax recoverable	-	627,467
Deferred taxation (Note 16)	-	24,008
	<u>19,247,150</u>	<u>19,181,430</u>

14. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and in hand	<u>7,215,107</u>	<u>2,762,253</u>

An intercompany guarantee is in place with Original Additions Topco Limited as security on the bank accounts held by the Company.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

15. Creditors: Amounts falling due within one year

	2019 £	2018 £
Trade creditors	1,871,614	2,264,191
Amounts owed to group undertakings	2,514,536	1,189,848
Corporation tax	534,169	-
Other taxation and social security	204,892	154,005
Other creditors	761,885	-
Accruals and deferred income	1,479,399	1,707,645
	<u>7,366,495</u>	<u>5,315,689</u>

Included within creditors are forward foreign exchange contracts held at fair value totalling £82,807 (2018: £Nil).

16. Deferred taxation

	2019 £	2018 £
Asset at beginning of year	24,008	57,286
Charge to profit or loss	(27,496)	(33,278)
(Liability)/ Asset at end of year	<u>(3,488)</u>	<u>24,008</u>

The deferred taxation (liability)/ asset is made up as follows:

	2019 £	2018 £
Accelerated capital allowances	(12,248)	21,782
Other short-term timing differences	8,760	2,226
	<u>(3,488)</u>	<u>24,008</u>

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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17. Other provisions

	Dilapidations provision £
Charged to profit or loss	64,000
At 31 December 2019	<u>64,000</u>

The above provision relates to the contractual obligations of the Company on surrender of certain operating leases in respect of buildings to reinstate the premises to the same state and conditions as before the occupancy.

18. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
331 Ordinary shares class A of £1.00 each	331	331
400 Ordinary shares class B of £1.00 each	400	400
90 Ordinary shares class C of £1.00 each	90	90
	<u>821</u>	<u>821</u>

Ordinary shareholders of any class are entitled to attend, speak and vote at general meetings. All ordinary shares in issue rank pari passu.

On winding up of the Company, ordinary shares are treated as one class and rank equally in respect of the distribution on wind up of any surplus assets and retained profits.

19. Reserves

Share premium account

The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at an amount in excess of nominal value.

Capital redemption reserve

This reserve relates to the nominal value of shares that the Company has bought back.

Retained earnings

This reserve relates to the cumulative retained earnings less amounts distributed to shareholders.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

20. Share-based payments

During 2017, certain members of the Company were awarded share appreciation rights in the ultimate parent entity. 2,900 units were granted with a stated value of \$1,000. Of these units, two thirds vest over a 5 year period and one third are performance based subject to an exit event subject to a specific return on capital.

No charge has been recognised in the financial statements due to immateriality.

21. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund as well as to certain employees' personal schemes and amounted to £143,721 (2018: £119,136). Contributions totalling £51,703 (2018: £13,089) were payable to the fund at the balance sheet date.

22. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	583,938	549,201
Later than 1 year and not later than 5 years	320,390	941,441
	<u>904,328</u>	<u>1,490,642</u>

23. Related party transactions

In line with the requirements of FRS102 the Company is not required to disclose transactions with group companies on the grounds that these companies are wholly owned within the Group.

24. Post balance sheet events

In the period since 31 December 2019 a global pandemic, COVID-19, has emerged. This led to some downward pressure in sales in the first half of 2020, as a result of the temporary closure of certain retail and salon customers. While demand has begun to stabilise in the second half of 2020, there are uncertain risks to the Company from the global spread of COVID-19. As a result, the directors are unable to give an estimate as to the financial impact of the COVID-19 pandemic.

ORIGINAL ADDITIONS (BEAUTY PRODUCTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

25. Controlling party

The immediate parent company is Original Additions Topco Limited, a company registered in England and Wales. The ultimate parent entity is Wellness Group Holding LP, and there is no ultimate controlling party.

The smallest group of undertakings for which group accounts for the year ending 31 December 2019 have been drawn up, is that headed by PDC Brands UK Limited. Copies of the consolidated financial statements can be obtained from Companies House.

The largest group of undertakings for which group accounts for the year ending 31 December 2019 have been drawn up, is that headed by Wellness Group Holdings LP. Copies of the consolidated financial statements can be obtained from c/o PDC Brands, 750 E Main St, Suite 1000, Stamford, CT 06902, USA.