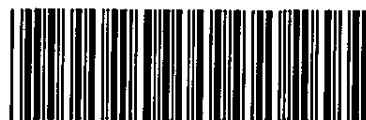


GHD Group Holdings Limited

Report and Financial Statements

31 December 2012

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COMPANIES HOUSE

Directors

J Lovering (appointed 17 January 2012, resigned 12 March 2013)
P Cooper (appointed 14 March 2013)
P Stoneham
S Pooler (resigned 12 March 2013)
A Greensmith (resigned 12 March 2013)
L Coppock (appointed 1 March 2012)
M Hall (resigned 14 February 2012)
P Cheung (resigned 3 March 2012)
M Dunfoy (resigned 29 February 2012)

Secretary

M Hall (appointed 16 January 2012, resigned 1 March 2012)
L Coppock (appointed 1 March 2012)

Auditors

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds LS11 5QR

Bankers

Barclays Bank plc
North West Larger Business Team
7th Floor
1 Marsden Street
Manchester M2 1HW

Registered Office

Lion Capital LLP
21 Grosvenor Place
London SW1X 7HF

Registered No 06302477

Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Results and dividends

The group profit for the year after taxation amounted to £5,332,000 (2011 – profit of £2,110,000) The directors do not recommend a final dividend (2011 – £nil)

Principal activity and review of the business

The principal activity of the company is as an ultimate parent undertaking for the Gemella group of companies, businesses involved in the distribution of hair care products

The Group's key financial and non-financial performance indicators during the year were as follows

	2012	2011
Group turnover	£150,378,000	£155,309,000
Gross profit margin	67.3%	67.6%
Operating profit	£24,778,000	£21,636,000
Net cash from operating activities	£22,186,000	£8,608,000
Average number of employees	672	690
Number of principle territories	9	9

2012 was a successful year for GHD Group Holdings Limited, despite the uncertain retail conditions prevalent in many of the ghd markets, demonstrating, once again, the strength and loyalty that this iconic brand can command and the significant overseas growth potential

On March 8 2013, management led a leveraged buyout of the Group, in conjunction with Lion Capital This brought to an end the Group's partnership with Montagu Private Equity, which has been a great success and enabled the Group to build the ghd brand, develop new proprietary technology, create a strong digital presence, expand internationally and enter new hair care categories

The Group now looks forward to accelerating ghd's development in close partnership with Lion Capital, with whom the Group share a common vision and passion for growth The Group will continue to focus on the professional salon channel as the core market for the business and look to drive growth through increased investment behind the brand, new product development and expansion of both international and online sales channels

Principal risks and uncertainties

There continue to be a number of potential risks and uncertainties which could have a material impact on the Group's long term performance and cause actual results to differ materially from expected and historical results We seek to identify material risks and put into place contingency plans to mitigate the Group's potential exposure

Competitor risk

ghd is the leading brand of hair styling irons in the UK and Australia and is establishing that position overseas Many companies with which we compete or which may enter into competition with us, have substantial financial, marketing and technical resources To mitigate this risk, we continue to invest in our strong salon relationships, invest in retaining our professional brand position and improving and innovating new products

Directors' report

Principal risks and uncertainties (continued)

Supply risk

The Group is fully dual sourced in its key product ranges, with significant manufacturers with global capabilities, who have the capacity and desire to grow the ghd brand. The group continues to review its supply chain to balance the mitigation of risk and the drive for greater efficiencies.

Exchange risk

The Group continually reviews the need to enter into derivative contracts to reduce the exposure to the variability of foreign exchange. Primarily, the Group reviews the requirement to purchase USD contracts, but also includes the potential methods to help mitigate against Euro volatility in the Group's income streams.

Interest rate risk

During the year, the Group's interest rate hedging instrument expired. The group made the decision, with LIBOR rates being low, of not taking out a new instrument. On March 8 2013, the Group refinanced its debt and is currently looking at taking out an interest rate hedging interest to mitigate future risk on the increased re-gear debt. Details of the instruments used are disclosed in note 20.

Events since the balance sheet date

On March 8 2013, the entire share capital of the company was purchased in a leveraged buy-out by Lion/Gloria BidCo Limited.

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the business activities as set out on page 2 as well as the Group's principal risks and uncertainties as set out above.

The Directors have further considered the implications of the refinancing of the Group of 8 March 2013. This refinancing repaid all existing debt and put in place both new bank and new shareholder debt. (See note 15). Based on the Group's forecasts and projections, and considering this new financing structure, the Board is satisfied that the Group will be able to operate with its current level of resources for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Directors

The directors who served the company during the year and appointed subsequently are listed on page 1.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Political and charitable contributions

During the year the Company paid charitable donations of £1,350,000 (2011 – £1,299,000).

Disabled employees

The Group 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 Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Directors' report

Employee involvement

The Group operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the group has been continued through group communications which allows a free flow of information and ideas.

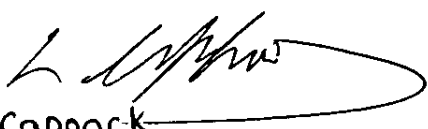
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is 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.

On behalf of the Board

 18/4/13
L Coppock
Director

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). 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 group and the company and of the profit or loss of the group 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 adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of GHD Group Holdings Limited

We have audited the financial statements of GHD Group Holdings Limited for the year ended 31 December 2012 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent undertaking's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent undertaking's affairs as at 31 December 2012 and of the group's 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

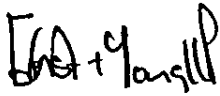
Independent auditors' report

to the members of GHD Group Holdings Limited

Matters on which we are required to report by exception

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 by the parent undertaking, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent undertaking 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



A Denton (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Leeds

19/4/13

Group profit and loss account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Turnover	2	150,378	155,309
Cost of sales		(49,118)	(50,346)
Gross profit		101,260	104,963
Distribution and selling costs		(29,813)	(33,732)
Administrative expenses		(46,669)	(49,595)
		(76,482)	(83,327)
Group operating profit	3	24,778	21,636
Loss on foreign exchange translation		(1,269)	(1,991)
Exceptional items	4	(1,084)	(1,602)
Net interest payable	7	(15,498)	(14,952)
Profit on ordinary activities before taxation		6,927	3,091
Tax	8	(1,511)	(919)
Profit on ordinary activities after taxation		5,416	2,172
Equity minority interests in subsidiaries		(84)	(62)
Profit for the financial year	17	5,332	2,110

All amounts relate to continuing activities

Group statement of total recognised gains and losses


for the year ended 31 December 2012

	2012 £000	2011 £000
Profit attributable to shareholders	5,332	2,110
Currency translation differences	(722)	(232)
Total recognised gain and losses for the year	4,610	1,878

Group balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Intangible assets	9	131,271	126,583
Tangible assets	10	8,929	8,200
		<u>140,200</u>	<u>134,783</u>
Current assets			
Stock	12	15,426	21,740
Debtors	13	38,027	36,243
Cash at bank and in hand		<u>16,701</u>	<u>19,150</u>
		70,154	77,133
Current liabilities			
Creditors after falling due within one year	14	<u>(31,533)</u>	<u>(34,677)</u>
Net current assets		<u>38,621</u>	<u>42,456</u>
Total assets less current liabilities		178,821	177,239
Creditors after falling due after more than one year	15	<u>(167,114)</u>	<u>(169,929)</u>
Minority interests		<u>(69)</u>	<u>(282)</u>
Net assets		<u>11,638</u>	<u>7,028</u>
Capital and reserves			
Called up share capital	16	611	775
Share premium account	17	342	342
Capital redemption reserve	17	174	10
Profit and loss account	17	10,511	5,901
Shareholders' funds	18	<u>11,638</u>	<u>7,028</u>

 18/11/13
 L Coppock
 Director

Company balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Investment	11	965	965
Current assets			
Debtors	13	3,372	3,339
Cash at bank and hand		8	8
		<u>3,380</u>	<u>3,347</u>
Current liabilities			
Creditors after falling due within one year	14	(4,203)	(4,089)
Net current assets		<u>(823)</u>	<u>(742)</u>
Total assets less current liabilities		142	223
Creditors after falling due after more than one year	15	—	—
Net assets		<u>142</u>	<u>223</u>
Capital and reserves			
Called up share capital	16	611	775
Share premium account	17	342	342
Capital redemption reserve	17	174	10
Profit and loss account	17	(985)	(904)
Shareholders' funds	18	<u>142</u>	<u>223</u>

 18/12/13
L Coppock
 Director

Group statement of cash flows

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Net cash inflow from operating activities	19(a)	22,186	8,608
Return on investments and servicing of finance			
Interest paid		(12,924)	(3,129)
		<u>(12,924)</u>	<u>(3,129)</u>
Taxation			
Corporation tax (paid)		-	(68)
Overseas tax paid		(954)	(981)
		<u>(954)</u>	<u>(1,049)</u>
Capital expenditure			
Payments to acquire tangible fixed assets		(4,929)	(3,197)
Receipts from sale of tangible fixed assets		1,188	129
Payments to acquire intangible fixed assets		(4,558)	(2,671)
		<u>(8,299)</u>	<u>(5,739)</u>
Acquisitions and disposals			
Cash paid on acquisitions		(2,448)	(1,401)
Financing			
Loan notes repaid		(19,322)	-
Loan notes issued		20,000	-
Repayment of bank loans		(688)	(9,750)
		<u>(10)</u>	<u>(9,750)</u>
Decrease in cash	19(b)	<u>(2,449)</u>	<u>(12,460)</u>

Reconciliation of net cash flow to movement in net funds

	Note	2012 £000	2011 £000
Decrease in cash		(2,449)	(12,460)
Cash outflow from debt repayment		10,688	9,750
Changes in net debt resulting from cash flows		8,239	(2,710)
Other non-cash movements		<u>(13,253)</u>	<u>(12,245)</u>
Movement in net debt in the year		(5,014)	(14,955)
Net debt at beginning of year		(149,937)	(134,982)
Net debt at end of year	19(b)	<u>(154,951)</u>	<u>(149,937)</u>

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The Directors have considered the implications of the refinancing of the Group of 8 March 2013. This refinancing repaid all existing debt and put in place both new bank and new shareholder debt. (See note 15) Based on the Group's forecasts and projections, and considering this new financing structure, the Board is satisfied that the Group will be able to operate with its current level of resources for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements

Group financial statements

The financial statements combine the financial statements of GHD Group Holdings Limited and its subsidiaries made up to 31 December each year

Turnover

Turnover represents the invoiced value of goods and services supplied for the year, less returns and excluding value added tax and sales between companies in the group

Goodwill

Purchased goodwill representing the excess of the fair value of the consideration over the fair value of the identifiable assets and liabilities acquired, is capitalised and reviewed annually for impairment

Although the Companies Act would normally require the systematic annual amortisation of goodwill, the directors believe that the goodwill has an indefinite useful life and as such should not be amortised. The Directors believe the goodwill has an indefinite useful life as the investments made in the business in the past and going forward are enough to preserve the goodwill in the business

Research and Development costs

Development expenditure is capitalised as an intangible asset when the separately identifiable costs can, with reasonable assurance, be judged to lead to future income stream in excess of the expenditure. Any expenditure capitalised is amortised in line with the expected future sales from the related projects. Each project is assessed for future recoverability at each period end. All research costs and other development costs are expensed in the period incurred

Intangible fixed assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which they are incurred. Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of the intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. The carrying value of the tangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may be impaired

Notes to the financial statements (continued)

at 31 December 2012

1 Accounting policies (continued)

Depreciation is calculated to write off assets over their expected useful lives at the following annual rates

Freehold buildings	–	20 - 50 years
Leasehold improvements	–	10% of cost
Plant, equipment, fixtures and fittings	–	20 - 33% of cost
Motor vehicles	–	25% of written down value

On an annual basis, the directors make an assessment on the useful economic life of the Tangible Fixed Assets to ensure that the above rates are valid

Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyers usually on dispatch of the goods

Stocks

Stock is 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. Costs include all costs incurred in bringing each product to its present location and condition including attributable overheads.

Deferred taxation

Deferred taxation 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 right to pay less or to receive more, tax, with the following exceptions

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- 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

Foreign currencies

Assets and liabilities of UK companies denominated in foreign currencies are translated into sterling at year end exchange rates. Exchange differences are dealt with in the profit and loss account

The transactions during the year of overseas subsidiaries are translated into sterling at the average exchange rates for the period

At the year end the net assets of subsidiaries are translated into sterling at year end exchange rates. Exchange adjustments arising from the retranslation of the opening net investment in subsidiaries and of transactions at average exchange rates are taken to reserves

Finance costs

Finance costs are initially recognised as a reduction in the proceeds of the associated capital instrument and are then amortised using the effective interest rate method over the period of the capital instrument

Finance income

Revenue is recognised as interest accrues using the effective interest method

Notes to the financial statements (continued)

at 31 December 2012

1. Accounting policies (continued)

Lease commitments

Rent payable under operating leases is charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Interest bearing loans and interest

All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts in the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Financial instruments

The group uses interest rate hedging instruments to reduce exposure to interest rates. The Group does not hedge account and interest differentials are recognised by accruing with net interest payable. The instruments are not shown in the balance sheet at year-end but their fair value at the balance sheet date and movement in value from prior period is disclosed in the notes to the financial statements.

Acquisitions

Acquisitions have been included in the group financial statements using the acquisition method of accounting.

2. Turnover

An analysis of turnover by geographical market is given below

	2012 £000	2011 £000
United Kingdom	63,038	64,235
Overseas	87,340	91,074
	<u>150,378</u>	<u>155,309</u>

3. Group Operating Profit

This is stated after charging/ (crediting)

	2012 £000	2011 £000
Auditors' remuneration – audit	264	240
– tax	193	149
– other	-	35
Research and development expenditure written off	822	297
Depreciation	2,620	1,861
Amortisation	582	383
Loss on disposal of fixed asset	-	24
Exceptional items (note 4)	<u>3,695</u>	<u>201</u>

Notes to the financial statements (continued)

at 31 December 2012

4 Exceptional items

	2012 £000	2011 £000
Recognised in arriving at operating profit		
One off write down of stock and related costs	1,240	—
Termination agreements and one-off consultancy costs	2,455	—
Acquisition of distributor	—	143
Other	—	58
	<u>3,695</u>	<u>201</u>
Recognised below operating profit		
Group restructuring	—	1,602
Litigation	257	—
Closure of site	470	—
Loss on disposal of fixed asset	307	—
Other	50	—
	<u>1,084</u>	<u>1,602</u>
	<u>4,779</u>	<u>1,803</u>

The tax effect in the profit and loss account relating to exceptional items recognised below operating profit is £266,000 (2011 – £425,000)

5. Directors' remuneration

	2012 £000	2011 £000
Remuneration for qualifying services	973	1,198
Compensation for loss of office	222	413
Company pension contributions to money purchase schemes	21	26
	<u>1,216</u>	<u>1,637</u>

Highest paid director

	2012 £000	2011 £000
Remuneration for qualifying services	662	542
Other payments	64	171
	<u>726</u>	<u>713</u>

6. Staff costs

	2012 £000	2011 £000
Wages and salaries	25,580	27,189
Social security costs	2,820	2,775
Other pension costs	931	1,031
	<u>29,331</u>	<u>30,995</u>

Notes to the financial statements (continued)

at 31 December 2012

6. Staff costs (continued)

The average monthly number of employees (including directors) during the year was made up as follows

	2012 No	2011 No
Selling and distribution	428	398
Marketing and education	83	84
Administration	161	208
	<u>672</u>	<u>690</u>

7. Interest payable and similar charges

	2012 £000	2011 £000
Bank interest payable	(27)	(268)
Interest payable on bank loans and overdrafts	(3,057)	(3,025)
Interest payable on loan notes	(12,414)	(11,659)
	<u>(15,498)</u>	<u>(14,952)</u>

8 Tax

(a) Tax on profit on ordinary activities

	2012 £000	2011 £000
Current tax		
UK corporation tax on the profits for the year	-	1,439
Overseas tax	1,494	799
Adjustment in respect of prior periods – UK	(1,225)	23
– overseas	(214)	(31)
	<u>55</u>	<u>2,230</u>
Deferred tax		
Origination and reversal of timing differences	1,456	(1,311)
Tax on profits on ordinary activities	<u>1,511</u>	<u>919</u>

Notes to the financial statements (continued)

at 31 December 2012

9 Tax (continued)

(a) Factors affecting the current tax credit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before taxation	6,927	3,091
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	1,697	819
<i>Effects of</i>		
Expenses not deductible for tax purposes	848	937
Capitalised development expenditure deductible for tax	(656)	-
Payment of interest accrued in earlier periods	(1,992)	-
Other timing differences	(524)	267
Tax losses carried forward	954	293
Differences in overseas tax rates	452	(70)
Adjustment in respect of prior period	(1,439)	(8)
Movement in unprovided deferred tax	708	-
Other	7	(8)
Current tax for the year (note 8(a))	55	2,230

(b) Deferred tax

	2012 £000	2011 £000
At 1 January 2012		2,876
Charge to profit and loss account		(689)
Adjustment in respect on prior years		(767)
Currency variations		(27)
At 31 December 2012		1,393
Decelerated capital allowances	950	288
Unutilised losses carried forward	45	2
Timing difference on allowable interest on loan notes	1,228	1,469
Other timing differences	(830)	1,117
	1,393	2,876

Notes to the financial statements (continued)

at 31 December 2012

8 Tax (continued)

The Group has a recognised deferred tax asset of £1,228,000 (2011: £1,469,000) that relates to the timing difference on loan note interest which is allowable only on payment. As part of the refinancing at March 8, 2013, the Group repaid the remaining loan notes, including all interest accrued to date. This 2012 deferred tax asset relates to the element of the interest, which was charged in prior periods, was paid in 2013 and will be allowable in that year. The 2011 deferred tax asset related to the element of interest that was forecast to be allowable in 2012, resulting from the repayment of loan notes on May 4 2012 (see note 15).

(a) Factors that may affect future tax charges

The group has unrecognised deferred tax assets of £Nil (2011: £1,954,000) in relation to interest charged on loan notes which will only become deductible when it is paid at some point in the future. There is also an unrecognised asset of £1,934,000 (2011: £891,000) relating to unutilised tax losses and other timing differences in companies where there is no guarantee of future profits. If the group is able to utilise these unrecognised deferred tax assets against future taxable profits, this will have an impact of reducing the effective tax rate in the future.

UK Deferred tax is provided at 23%.

It was announced in the 2013 Budget that the main rate of corporation tax effective from 1 April 2013 will be 23% and from April 2014, 21%. It has also been announced that further reductions will result in a decrease in the main rate of corporation tax to 20% from 1 April 2015. Only the reduction in the rate to 23% was substantively enacted at the balance sheet date.

If the remaining changes had been substantively enacted at the balance sheet date, the maximum reduction in the recognised deferred tax asset at 31 December 2012 would be £195,000.

9 Intangible fixed assets

	<i>Goodwill</i>	<i>Intangible</i>	<i>Total</i>
	<i>£000</i>	<i>assets</i>	<i>£000</i>
		<i>£000</i>	<i>£000</i>
Cost			
At 1 January 2012	120,491	6,732	127,223
Additions	2,153	3,462	5,615
Disposals	–	(10)	(10)
Transfers	–	(161)	(161)
Currency translation differences	(200)	(15)	(215)
At 31 December 2012	122,444	10,008	132,452
Amortisation			
At 1 January 2012	–	640	640
Charge	–	582	582
Disposals	–	(3)	(3)
Transfers	–	(26)	(26)
Currency translation differences	–	(12)	(12)
At 31 December 2012	–	1,181	1,181
Net book value			
At 31 December 2012	122,444	8,827	131,271
At 1 January 2012	120,491	6,092	126,583

Notes to the financial statements (continued)

at 31 December 2012

9. Intangible fixed assets (continued)

The goodwill acquired in the year relates to the repurchase of the remaining share capital in its German, Italian and Danish subsidiaries, further disclosure is included in note 23

The Directors believe goodwill has an indefinite useful life and as such should not be amortised. Goodwill is reviewed annually for impairment.

Within Intangible Fixed Assets, at December 2012, there are £3,075,000 (2011 – £3,387,000) of Development costs that have been capitalised in the year and £8,962,000 in total, in accordance with SSAP 13. These costs have been amortised by £744,000 at December 2012 (2011 – £288,000) and a net book value at December 2012 of £8,219,000 (2011 – £5,760,000). During the year a further £822,000 (2011 – £297,000) of Research and Development costs were expensed.

10. Tangible fixed assets

Group	Freehold property £000	Leasehold improvements £000	Motor vehicles £000	Plant equipment, website cost, fixtures and fittings £000	Total £000
Cost					
At 1 January 2012	1,741	3,301	327	9,255	14,624
Additions	–	877	29	3,853	4,759
Disposals	(1,741)	–	(23)	(80)	(1,844)
Transfers	–	(24)	–	185	161
Currency translation differences	–	(2)	(9)	(88)	(99)
At 31 December 2012	–	4,152	324	13,125	17,601
Depreciation					
At 1 January 2012	247	1,722	222	4,233	6,424
Charge	17	268	37	2,298	2,620
Disposals	(264)	–	(12)	(60)	(336)
Transfers	–	(10)	–	36	26
Currency translation differences	–	(1)	(6)	(55)	(62)
At 31 December 2012	–	1,979	241	6,452	8,672
Net book amounts					
At 31 December 2012	–	2,173	83	6,673	8,929
At 1 January 2012	1,494	1,579	105	5,022	8,200

There were no commitments to future capital expenditure.

Notes to the financial statements (continued)

at 31 December 2012

11. Investments

	<i>Group</i>	<i>Company</i>
	<i>£000</i>	<i>£000</i>
Cost		
At 1 January 2012 and 31 December 2012	—	965

The company owns directly or indirectly the called up equity share capital of the following companies

	<i>Percentage held</i>	<i>Country of incorporation</i>
Holding Companies		
GHD Holdings Limited*	100%	United Kingdom
GHD EBT Company Limited*	100%	United Kingdom
GHD Group Limited	100%	United Kingdom
Jemella Group (Holdings) Limited	100%	United Kingdom
Jemella Group Limited	100%	United Kingdom
Wonderful Life UK Limited	100%	United Kingdom
Hair Care Product Distributors		
Jemella Limited	100%	United Kingdom
Jemella Australia Pty Limited	100%	Australia
Wonderful Life Limited	100%	United Kingdom
Power Promotions Limited	100%	United Kingdom
Power Wizards Limited	100%	United Kingdom
Good Hair Day South Africa (Proprietary) Limited	100%	South Africa
GHD Professional, North America Inc	100%	USA
GHD Spain SL	100%	Spain
GHD Italia S r l	100%	Italy
GHD Scandinavia ApS	100%	Denmark
Revolver Distribution Pty Limited	100%	Australia
Jemella New Zealand Limited	100%	New Zealand
GHD France SARL	90%	France
GHD Deutschland GmbH	100%	Germany

* Direct holding

12 Stocks

	<i>Group</i>	<i>Company</i>
	<i>2012</i>	<i>2012</i>
	<i>2011</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Goods purchased for resale	15,426	21,740
	—	—

Notes to the financial statements (continued)

at 31 December 2012

13. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	32,633	30,179	–	–
Deferred taxation (see note 8)	1,393	2,876	–	–
Other debtors	517	728	–	–
Prepayments and accrued income	3,484	2,460	–	–
Amount due from subsidiary undertakings	–	–	3,372	3,339
	<u>38,027</u>	<u>36,243</u>	<u>3,372</u>	<u>3,339</u>

At the balance sheet date for the Group there was an amount of £1,669,000 outstanding within trade debtors that is due greater than one year

14. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank loans	4,538	(841)	–	–
Total borrowings falling due within one year	<u>4,538</u>	<u>(841)</u>	<u>–</u>	<u>–</u>
Trade creditors	10,459	15,364	–	–
Corporation tax	229	1,336	–	–
Other taxation and social security costs	5,704	4,705	–	–
Other creditors	414	551	–	–
Accruals and deferred income	10,189	13,562	–	–
Amount due from subsidiary undertakings	–	–	4,203	4,089
	<u>31,533</u>	<u>34,677</u>	<u>4,203</u>	<u>4,089</u>

During 2011, the Group used Letters of Credit to pay its suppliers. Of these £Nil were outstanding at the year-end 2012 (2011 – £5,890,000)

Finance costs associated to each capital instrument are amortised over the life of that instrument. There was no loan principal payable on the bank loans in 2011, because the group repaid both 2011 and 2012 repayment amounts in 2011. This resulted in the receivable balance in creditors falling due within one year in 2011.

On March 8 2013, the bank loan was repaid in full.

Notes to the financial statements (continued)

at 31 December 2012

15 Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank loans	34,561	39,790	–	–
Loan notes	132,553	130,139	–	–
Total borrowings falling due after more than one year	167,114	169,929	–	–

The maturity profile of the group's financial liabilities at the year-end was as follows

	<i>Group</i>		<i>Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
In one year	4,538	(841)	–	–
Within one to two years	4,771	4,884	–	–
In two to five years	162,343	165,045	–	–
	171,652	169,088	–	–

Bank loans and overdrafts are secured by a fixed and floating charge over the assets of the group

The bank loan is split into two sterling loan facilities. The first attracts interest at 2.00% (2011 – 2.00%) above LIBOR and is repayable in stepped instalments until 30 June 2014. The second loan facility attracts interest at 2.50% (2011 – 2.50%) above LIBOR and is repayable on 30 June 2015. Within the bank loans balance is an amount of issue costs of £1,463,000 (2011 – £2,301,000) which was paid on the inception of the bank loans.

At the balance sheet date the loan notes consist of 101,791,000 £1 unsecured A loan notes, 14,291,000 £1 unsecured B loan notes and 17,127,000 £1 unsecured C loan notes which bear interest at 9.25% which is compounded quarterly and added to the principal value. They are repayable on 30 July 2015. Within the loan notes balance is an amount of issue costs of £656,000 (2011 – £1,119,000) which was paid on the inception of the loan notes.

On 4 May 2012, the Group redeemed at par £30,000,000 of accumulated B loan notes, which was made up of £19,322,000 of £1 loan note capital and £10,678,000 of compound interest.

On 4 May 2012 the Group issued a further £13,000,000 of unsecured £1 A loan notes and £7,000,000 of unsecured £1 C loan notes. These notes have the identical terms to the ones already in issue, carrying an interest rate of 9.25% which is compounded quarterly and added to the principal value.

On March 8 2013, the Group repaid in full all the outstanding loan notes and bank loans, as part of the acquisition of the Group's share capital by Lion/Gloria BidCo limited.

Notes to the financial statements (continued)

at 31 December 2012

15. Creditors: amounts falling due after more than one year (continued)

Some but not all of these loan notes have been listed on the Channel Island Stock Exchange (CISX), under standard terms and conditions, in the following tranches

- 4 December 2009 49,414,917 £1 loan A notes and 6,000,000 £1 C loan notes
- 13 December 2010 7,117,691 £1 loan A notes and 714,507 £1 C loan notes
- 18 January 2011 2,457,396 £1 loan A notes
- 9 January 2012 £3,126,635 £1 loan A notes
- 6 November 2012, £13,000,000 £1 loan A notes and £7,000,000 £1 C loan notes
- 24 December 2012, £4,725,073 £1 loan A notes and £772,692 £1 C loan notes

As a result of this, 79,841,712 unsecured £1 A loan notes and 14,487,199 unsecured £1 C loan notes, all due 30 July 2015 are now listed on the CISX which bear interest at 9.25%

On March 8 2013, the Group refinanced its debt and fully repaid all its bank debt and outstanding loan notes. As part of the refinancing, it also put in place new banking debt. The new facility of £120 million is split into 2 tranches. Term loan A, of £40m, amortises over 6 years and carries a margin of 5% over LIBOR. Term loan B, of £80m, has a term of 7 years and is itself split into 2 tranches. B1 which carries a margin of 5.75% over LIBOR, and B2 which will be denominated in Euros carrying a margin at 5.25% over LIBOR.

As part of the refinancing, the Group has issued £1 Eurobond notes of £60,000,000 which carry a coupon rate of 12% and is compounded quarterly and added to the principal value.

16 Issued share capital

		2012		2011
<i>Allotted, called up and fully paid</i>	<i>No</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
A ordinary shares of 50p each	729,567	363	361,572	181
B ordinary shares of £1 each	-	-	400,000	400
C1 ordinary shares of £1 each	227,087	227	175,000	175
C2 ordinary shares of 50p each	38,428	19	38,428	19
C3 ordinary shares of £1 each	1	1	-	-
E ordinary shares of 10p each	10	1	-	-
		<u>611</u>		<u>775</u>

On May 4 2012, the company created a new class of E ordinary shares of £0.10 and allotted £1.00 in nominal value of these shares. Furthermore, the company redesignated one of the C1 ordinary shares of £1.00 into a C3 ordinary share of £1.00.

Notes to the financial statements (continued)

at 31 December 2012

16. Issued share capital (continued)

On May 4, 2012, the company for total consideration of £1, raised from the issue of 10 E shares of 10p each, 1,839,975 10p shares were acquired by the company and cancelled. This represented 16% of the called up share capital at that point.

On May 4 2012, the company redesignated 400,000 B ordinary £1 shares into 367,995 A ordinary 50p shares and a further 32,004 C ordinary £1 shares.

On May 4, 2012, the company, via the Employment Benefit Trust, issued 24,666 shares of its £1 C1 ordinary shares at par. On July 17, 2012, the company, via the Employment Benefit Trust, repurchased 4,583 shares of its £1 C1 ordinary shares at par.

The classes of ordinary shares rank *pari passu* in all respects, except in the event of a material default of the banking facility, in which case the voting rights attached to the A ordinary shares shall be amended with effect that on a poll each holder of A ordinary shares shall have 10 times the number of votes of all other shares.

On March 8 2013, the entire share capital of the company was purchased by Lion/Gloria BidCo Limited, a UK registered company.

17. Movements on reserves

<i>Group</i>	<i>Capital redemption reserve £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>
At 1 January 2012	10	342	5,901
Share reorganisation in year	164	-	-
Profit attributable to shareholders for the year	-	-	5,332
Currency translation differences	-	-	(722)
At 31 December 2012	174	342	10,511

<i>Company</i>	<i>Capital redemption reserve £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>
At 1 January 2012	10	342	(904)
Share reorganisation in year	164	-	-
Loss attributable to shareholders for the year	-	-	(81)
At 31 December 2012	174	342	(985)

Capital redemption reserve movement of £164,000 was created on May 4, 2012 when the company reorganised its share capital. For £nil consideration, the company redesignated 400,000 B ordinary £1 shares into 367,995 A ordinary 50p.

The profit and loss account of the parent undertaking has not been presented, as permitted by section 408 of the Companies Act 2006.

Notes to the financial statements (continued)

at 31 December 2012

18. Reconciliation of shareholders' funds

	2012	2011
<i>Group</i>	£000	£000
Profit attributable to shareholders	5,332	2,110
Currency translation differences	(722)	(232)
Total recognised net profit for the year	4,610	1,878
Movement in equity shareholders' funds	4,610	1,878
Opening shareholders' funds	7,028	5,150
Closing shareholders' funds	11,638	7,028
	2012	2011
<i>Company</i>	£000	£000
Loss attributable to shareholders	(81)	(75)
Movement in equity shareholders' funds	(81)	(75)
Opening shareholders' funds	223	298
Closing shareholders' funds	142	223

19 Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2012	2011
	£000	£000
Operating profit per the profit and loss account	24,778	21,636
Depreciation and amortisation	3,202	2,244
Exceptional items	(1,166)	(1,509)
Loss on sale of fixed assets	-	24
Loss on foreign exchange	(1,995)	(2,250)
Decrease / (increase) in stock	6,313	(4,369)
Increase in debtors	(3,269)	(2,113)
Decrease in creditors	(5,677)	(5,055)
Net cash inflow from operating activities	22,186	8,608

Notes to the financial statements (continued)

at 31 December 2012

19. Notes to the statement of cash flows (continued)

(b) Analysis of net funds

	<i>At 1 January 2012 £000</i>	<i>Cash flows £000</i>	<i>Other movements £000</i>	<i>At 31 December 2012 £000</i>
Cash at bank and in hand	19,150	(2,449)	-	16,701
Bank loans	(38,949)	688	(838)	(39,099)
Loan notes	(130,139)	10,000	(12,415)	(132,554)
	<u>(149,938)</u>	<u>8,239</u>	<u>(13,253)</u>	<u>(154,952)</u>

20. Group hedging

During the year, the group's instruments used to hedge its floating rate debt expired and were not renewed. The details at 1 January 2012 are as follows:

	<i>Principal £000</i>	<i>Fair value £000</i>	<i>Fair value adjustment £000</i>
At 1 January 2012	<u>32,550</u>	<u>(598)</u>	<u>838</u>

Interest rate cap

The cap limited interest to 7% on £18.135m of the Group's facility.

The fair value represented the net cost of replacement of identical terms at prices prevailing on 31 December 2011.

Interest rate structured collar

The structured collar on £14.415m of the Group facility included a cap rate at 7%, and a floor rate of 4.55% on a notional amount that is amortised in line with the Bank loan repayment Schedule.

The fair value represented the net present value of the difference between the contracted fixed rates and fixed rates payable if the swaps were to be replaced on 31 December 2011 for the period to the contracted expiry dates.

Notes to the financial statements (continued)

at 31 December 2012

21. Other financial commitments

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	Property	Vehicles, plant and equipment	Property	Vehicles, plant and equipment
	£000	£000	£000	£000
Operating leases which expire				
Within one year	128	127	86	159
In two to five years	642	434	256	732
Over five years	738	–	698	–
	<u>1,508</u>	<u>561</u>	<u>1,040</u>	<u>891</u>

22 Contingent liabilities

During the year, the company issued Letters of Credit. At the year-end, £Nil Letters of Credit, with settlement date in 2012, were outstanding (2011 – £5,890,000). The related creditor balance remained on the balance sheet at the year-end.

23 Acquisitions

During the year, the company repurchased the remaining share capital in its German, Italian and Danish subsidiaries. The total cost, plus related legal fees, was £2,448,000. The total net assets purchased were £295,000. The excess consideration over the net assets of £2,153,000 has been held within Goodwill in the year (Note 9).

24 Related party transactions

	<i>Paid or accrued</i>	
	2012	2011
	£000	£000
Interest on loan notes		
Montagu Private Equity LLP	9,712	7,271
M Hall	<u>320</u>	<u>287</u>
		<i>Balance</i>
	2012	2011
	£000	£000
Loan notes		
Montagu Private Equity LLP	118,923	83,204
M Hall	<u>3,559</u>	<u>3,279</u>

During the year the group made payments to Montagu Private Equity LLP of £741,000 (2011 – £243,000) for services rendered.

Notes to the financial statements (continued)

at 31 December 2012

25 Ultimate parent undertaking and controlling party

At the balance sheet date the Ultimate Controlling Party was considered to be Funds managed by Montagu Private Equity LLP. The entire share capital of the company was purchased on March 8 2013 in a leverage buy-out by Lion/Gloria BidCo Limited, a subsidiary of Lion/Gloria TopCo Limited. Lion/Gloria TopCo Limited is controlled by the Funds managed by Lion Capital.

The Directors consider that the Ultimate Controlling Party to be Funds managed by Lion Capital.