

Company Registration No. 00428213

Coty Manufacturing UK Limited

Annual Report and Financial Statements

30 June 2009

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Coty Manufacturing UK Limited

Annual report and financial statements 2009

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Coty Manufacturing UK Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 30th June 2009

Principal activities

During the year the principal activities of the company comprised the manufacture and inter-company distribution of cosmetics

Business review

Coty Manufacturing UK Ltd is part of the multinational Coty Inc group and as such there is ongoing company wide investment in research and development in global properties across the group. The directors regard this type of investment as a key ingredient towards sustainable business development in the medium to long term.

Coty Manufacturing UK Ltd manufactures finished goods in house as well as managing third party outsourced production requirements. During 2009 in house finished goods units were 114.6 million. Although this is a 1.5 million decline from 2008, the sales value of the units manufactured has increased. This illustrates a general trend towards more complex and expensive products being made in house and an increase in bought in finished goods. The mix of product categories remains consistent with 2008.

The directors are pleased that the full year reported operating profit of £4,293,000 (2008 - £3,081,000) represents a satisfactory level of profitability for the contract manufacturing business in the current economic circumstances. Additional projects were continued during the year to support the overall result which included cost control and reduction programs, capital investment for production efficiencies, quality programs and focus on inventory reporting and reduction.

The above lead to an increase in net assets to £60,737,000 in 2009 compared with £57,797,000 in 2008. At the year end the company had a bank balance of £395,000 (2008 overdraft of £1,236,000).

Principal risks and uncertainties

Looking towards future trading, the prospects for Coty Manufacturing UK Ltd now solely relate to the worldwide contract manufacturing business. The directors recognise the current economic challenges in primary markets such as the US, UK and continental Europe and have sought and received parental comfort in terms of group structure and ongoing continuity of supply. Furthermore, there is ongoing focus on timely and accurate updates in forecasting, further cost control programs plus flexibility to adapt to future requirements. In this context, the directors believe that prospects for sustainable business development are in alignment with broader market place dynamics.

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and to a lesser degree price risk, in that solely as a contract manufacturer to sister companies, the level of any third party commercial risk is reduced. As part of Coty Inc, Coty Manufacturing UK Ltd is subject to corporate guidance and controls in the areas of Treasury and risk management. Coty Manufacturing UK Ltd does not use financial derivatives to manage any of these risks nor for speculative purposes.

Cash flow risk

During these challenging economic times the directors recognise the importance of increased net working capital monitoring, forecast accuracy and subsequent balancing actions to match the longer purchasing and production lead times of current and future product demand, with market trends and volatility. This will continue to be a priority focus.

Coty Manufacturing UK Limited

Director's report (continued)

Cash flow risk (continued)

Throughout the year, the contract manufacturing business is exposed to an element of foreign currency exchange rate volatility risk through sourcing raw materials, componentry and some finished goods for resale in foreign denominated currencies across Europe, Asia and the US

Interest bearing assets and liabilities are managed by the Corporate Treasury group and are held in the UK at an arms length fixed rate differential to LIBOR

Credit risk

The company's principal financial assets are bank balances and intercompany receivables

The contract manufacturing business sells almost exclusively to Coty Inc group sister companies and as such any ongoing intercompany receivable credit risk is commensurate with Coty Inc group risk. Historic payment performance by sister companies demonstrates reasonable adherence to these inter-company 30 day payment terms and as such the directors consider that there is minimal credit risk

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

The company has no significant concentration of credit risk, with exposure spread over a reasonably diverse number of counterparties and sister customers

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of short-term debt finance together with medium term intra-group borrowings

Within the overall UK parent group, Coty Brands Group there is an internal cash pooling mechanism in place with UK sister group companies, which does generate fluctuations in individual operating company short and medium term balances. In conjunction with the cash pooling mechanism, the collective Coty Brands group have access to a net £7,000,000 local overdraft facility with the RBS group. This enables management of short term cash variations in conjunction with the process of depositing excess cash balances on interest bearing loan to Coty Treasury BV. The directors of the company recognise that there can be no certainty that the existing facilities will be renewed at their current level but have not identified any reason why the existing facilities would be withdrawn over the next 12 months. The directors have reviewed and strengthened the monitoring processes associated with these mechanisms in conjunction with Coty Inc, and are satisfied that there is minimal liquidity risk

Price risk

The company is partially exposed to commodity price risk to the extent that these commodities are minor constituents within the finished goods produced for resale to sister companies. Coty Manufacturing UK Ltd does not manage its exposure to any such commodity price risks since these are minor elements which are controlled through corporate treasury and centralised group purchasing programs

Dividends

There were no interim dividends paid by directors (2008 - £nil) during the year. The directors do not propose a final dividend (2008 - £nil)

Future prospects

The directors of Coty Manufacturing UK Ltd recognize the volatility and challenges in principal economic markets and have documented above the risks foreseen. Furthermore there has been dialogue with, reassurance and comfort from Coty Inc about group risks and prospects. Consequently, the directors believe that there are continued reasonable opportunities for Coty Manufacturing UK Ltd business development, consistent with this environment

Coty Manufacturing UK Limited

Director's report (continued)

Directors and their interests

The directors during the year were as follows

A Garotti	(appointed 27 th July 2009)
A Jewson	(resigned 27 th July 2009)
D Evans	(resigned 3 rd April 2009)
D Pettifer	(appointed 27 th July 2009)
M Brady	(appointed 1 st October 2009)
J Leao	(resigned 17 th November 2009)

No director had a beneficial interest in the shares of the company or in those of the parent company that is required to be disclosed

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company values the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, an annual team building event, plus access to generic Coty Inc communication vehicles such as Coty Internet portal, Coty News and DVDs from the CEO.

Directors' Indemnities

The company has not made any qualifying third party indemnity provisions for the benefit of its directors during the year.

Independent auditors and statement of provision of information to the independent auditors

Deloitte LLP have expressed their willingness to continue in office as auditors of the company and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board



A Garotti
Director

16th December 2009

Coty Manufacturing UK Limited

Director's report (continued)

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 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 auditors' report to the members of Coty Manufacturing UK Limited

We have audited the financial statements of Coty Manufacturing UK Limited for the year ended 30 June 2009 which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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 sections 495 and 496 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, 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 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 (APB'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 company'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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2009 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.

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.

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, 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.



Neil Harris (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Crawley, United Kingdom

17 December 2009

Coty Manufacturing UK Limited

Profit and loss account Year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Turnover	2	77,617	65,767
Cost of sales		(55,345)	(50,985)
Gross profit		<u>22,272</u>	<u>14,782</u>
Administrative expenses		(17,979)	(11,701)
Operating profit	3	4,293	3,081
Interest receivable and similar income	5	44	1
Interest payable and similar charges	6	(650)	(1,481)
Profit on ordinary activities before taxation		<u>3,687</u>	<u>1,601</u>
Tax on profit on ordinary activities	7	(747)	(408)
Profit on ordinary activities after taxation	17	<u><u>2,940</u></u>	<u><u>1,193</u></u>

All operations are continuing

There are no recognised gains and losses for the current and preceding financial year other than as stated in the profit and loss account, accordingly no statement of total recognised gains and losses is presented

Coty Manufacturing UK Limited

Balance sheet 30 June 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	8	17,832	18,539
Tangible assets	9	24,325	27,313
		<u>42,157</u>	<u>45,852</u>
Current assets			
Stocks	10	6,339	7,467
Debtors	11	54,624	51,395
Cash at bank and in hand		395	-
		<u>61,358</u>	<u>58,862</u>
Creditors: amounts falling due within one year	12	<u>(34,011)</u>	<u>(35,825)</u>
Net current assets		<u>27,347</u>	<u>23,037</u>
Total assets less current liabilities		69,504	68,889
Creditors amounts falling due after more than one year	13	<u>(8,767)</u>	<u>(11,092)</u>
		<u>60,737</u>	<u>57,797</u>
Capital and reserves			
Called up share capital	15,17	20,050	20,050
Capital reserve	17	10	10
Profit and loss account	17	40,677	37,737
Shareholders' funds	17	<u>60,737</u>	<u>57,797</u>

These financial statements of Coty Manufacturing UK Limited, registered company number 00428213, were approved by the Board of Directors on 16th December 2009

Signed on behalf of the Board of Directors


A Garotti
Director

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom Law and accounting standards. The particular accounting policies adopted have been applied consistently in the current and preceding year and are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The directors have reviewed the going concern status of the company by considering the cash and borrowing position of the company at 30 June 2009, its anticipated level of trading activity and the continued availability of the company's existing bank facilities.

Having regard to the above and having sought and received parental comfort in terms of group structure and ongoing continuity of supply from an intermediate parent, Coty Inc, and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further information is provided within the directors' report on pages 1 and 2.

Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax.

Goodwill

On the acquisition of a business, fair values are attributed to the company's share of net tangible assets acquired. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet and amortised over its estimated useful life. The directors have estimated the useful lives of acquired operations at 40 years on the basis of the specialist nature of the business acquired and long-term industry prospects.

The directors test goodwill for potential impairment at least on an annual basis by analysing operating results, trends and prospects of each brand, and considering any other events or circumstances that might indicate potential impairment.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold properties and land	Over the term of the lease
Plant and machinery	10% per annum
Motor vehicles	25% - 33% per annum
Fixtures, fittings, tools and equipment	7% - 33% per annum

No depreciation is provided on assets in the course of construction.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

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Notes to the accounts Year ended 30 June 2009

1 Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Share based payments

The company has applied the requirements of FRS 20 'Share-based Payments'. In accordance with the traditional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

Certain of the company's employees are issued share options by Coty Inc. As Coty Inc recharges all costs borne by Coty Inc in relation to such options the company accounts for these share-based payments as cash-settled.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension contributions

Contributions were made to a defined contribution scheme. Charges to the profit and loss account represent the contributions payable for the accounting period. Any difference between amounts charged to the profit and loss account and contributions paid is included in other debtors or other creditors in the balance sheet.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

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Notes to the accounts Year ended 30 June 2009

2 Segmental information

The geographical analysis of turnover by destination (based on the destination of the ultimate external customer) is as follows

	2009 £'000	2008 £'000
United Kingdom	20,016	16,692
Other	57,601	49,075
	<u>77,617</u>	<u>65,767</u>

The directors are of the opinion that the company has one class of business

3. Operating profit

	2009 £'000	2008 £'000
Operating profit is after charging/(crediting):		
Depreciation and amortisation		
Owned assets	5,009	4,301
Amortisation of goodwill	707	707
Rentals under operating leases		
Hire of plant and machinery	214	160
Other	13	13
Loss on disposal of fixed assets	8	-
Foreign exchange	1,298	(133)
	<u>12,249</u>	<u>5,848</u>

The analysis of auditors' remuneration is as follows:

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	<u>32</u>	<u>34</u>
Fees payable to the Company's auditors and their associates for other services to the Company		
Tax services	<u>23</u>	<u>16</u>

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

4 Information regarding directors and employees

	2009 £'000	2008 £'000
Directors' emoluments.		
Remuneration	299	378
Compensation for loss of office	71	-
Pension contributions	29	28
	<u>399</u>	<u>406</u>
The highest paid director received:		
Remuneration	185	213
Pension contributions	17	16
	<u>202</u>	<u>229</u>
	No.	No.
The number of directors who		
Are members of a money purchase pension scheme	3	3
Exercised options in the period	2	-
Received awards under a long term incentive plan	3	3
	<u>3</u>	<u>3</u>
The highest paid director did not exercise any share options during the period		
Average number of persons employed.	No.	No.
Production	285	298
Sales and distribution	1	1
Administration	41	42
	<u>327</u>	<u>341</u>
Staff costs (including directors):	£'000	£'000
Wages and salaries	8,808	9,054
Social security costs	931	996
Other pension costs	409	528
	<u>10,148</u>	<u>10,578</u>

5. Interest receivable and similar income

	2009 £'000	2008 £'000
Bank interest	8	1
Loans to group undertakings	36	-
	<u>44</u>	<u>1</u>

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

6 Interest payable and similar charges

	2009 £'000	2008 £'000
Bank overdrafts	10	23
Loans from group undertakings	95	484
Other interest	545	974
	<u>650</u>	<u>1,481</u>

7 Tax on profit on ordinary activities

	2009 £'000	2008 £'000
Current tax*		
UK corporation tax charge at 28.0% (2008: 29.5%)	1,469	425
Prior year adjustment	(285)	(76)
	<u>1,184</u>	<u>349</u>
Deferred tax – timing differences, origination and reversal	(437)	59
Tax on profit on ordinary activities	<u>747</u>	<u>408</u>

Reconciliation to current tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008: 29.5%). The current tax rate for the current and preceding year is higher (2008 - lower) for the reasons set out in the following reconciliation

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	3,687	1,601
Tax on profit on ordinary activities at standard rate	1,032	472
Factors affecting charge		
Disallowed expenses	198	200
Capital allowances for the year higher than depreciation	243	(264)
Other short term timing differences	(8)	(54)
Fixed asset loss on disposal	104	7
Prior year adjustment	(285)	(76)
Share-based payments (FRS 20)	(100)	64
Current tax charge for the year	<u>1,184</u>	<u>349</u>

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

8. Intangible fixed assets

	Goodwill £'000
Cost	
At 1 July 2008 and 30 June 2009	28,221
Amortisation	
At 1 July 2008	9,682
Charge for the year	707
At 30 June 2009	10,389
Net book value	
At 30 June 2009	17,832
At 30 June 2008	18,539

9 Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures, fittings, tools and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 July 2008	14,629	28,445	15	12,025	3,343	58,457
Additions	-	36	-	1	2,358	2,395
Transfers	815	1,746	-	2,327	(4,888)	-
Disposals	-	(16)	-	(364)	-	(380)
At 30 June 2009	15,444	30,211	15	13,989	813	60,472
Accumulated depreciation						
At 1 July 2008	4,395	17,738	14	8,997	-	31,144
Charge for the year	514	2,386	-	2,109	-	5,009
Disposals	-	(1)	-	(5)	-	(6)
At 30 June 2009	4,909	20,123	14	11,101	-	36,147
Net book value						
At 30 June 2009	10,535	10,088	1	2,888	813	24,325
At 30 June 2008	10,234	10,707	1	3,028	3,343	27,313

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

9. Tangible fixed assets (continued)

The net book value of land and buildings comprises

	2009 £'000	2008 £'000
Land	2,942	2,427
Buildings		
Long leasehold	7,593	7,807
	<u>10,535</u>	<u>10,234</u>

10 Stocks

	2009 £'000	2008 £'000
Raw materials and consumables	3,124	4,356
Work-in-progress	406	392
Finished goods and goods for resale	2,809	2,719
	<u>6,339</u>	<u>7,467</u>

11. Debtors

	2009 £'000	2008 £'000
Trade debtors	26	-
Amounts owed by group undertakings	53,497	50,055
Other debtors	234	918
Deferred tax (note 14)	583	146
Prepayments and accrued income	284	276
	<u>54,624</u>	<u>51,395</u>

12. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Bank overdrafts	-	1,236
Trade creditors	8,893	9,703
Amounts owed to group undertakings	1,422	2,938
Corporation tax current	666	88
Corporation tax prior periods	16,215	15,378
Other taxation and social security	394	367
Other creditors	5,710	4,605
Accruals and deferred income	711	1,510
	<u>34,011</u>	<u>35,825</u>

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

13. Creditors amounts falling due after more than one year

	2009 £'000	2008 £'000
Amount owed to parent company	8,642	8,642
Amount owed to fellow subsidiary	125	125
Amount owed to other group undertakings	-	2,325
	<u>8,767</u>	<u>11,092</u>

The amount owed to the parent undertaking and fellow subsidiary is non-interest bearing. The company has obtained confirmation from the counter-party that they will not seek repayment of the amount within one year of the balance sheet date.

14. Deferred taxation asset

	£'000
Asset at 1 July 2008	146
Deferred tax credit for the year	437
Asset at 30 June 2009	<u>583</u>

	2009 £'000	2008 £'000
Share-based payments	72	329
Depreciation lower than/(in excess of) capital allowances	511	(183)
Total asset	<u>583</u>	<u>146</u>

15. Called up share capital

	2009 £'000	2008 £'000
Authorised		
20,100,000 ordinary shares of £1 each	<u>20,100</u>	<u>20,100</u>
Called up, allotted and fully paid		
20,050,000 ordinary shares of £1 each	<u>20,050</u>	<u>20,050</u>

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

16 Share-based payments

Cash-settled share option scheme

Certain of the company's employees are issued share options in the company's intermediate parent company, Coty Inc, under a long term incentive plan. These share options vest over variable periods, typically 3 to 5 years. If the options remain un-exercised after a period of 10 years from the date of grant the options expire. All non-vested options are forfeited if the employee leaves the company before the options vest.

Details of the share options outstanding during the year are as follows

	2009		2008	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of the year	39,500	14.03	29,500	11.34
Granted during the year	7,500	14.35	10,000	13.84
Transferred out to fellow group company	(2,000)	-	-	-
Outstanding at the end of the year	<u>45,000</u>	<u>13.97</u>	<u>39,500</u>	<u>14.03</u>
Exercisable at the end of the year	<u>19,000</u>	<u>16.13</u>	<u>12,000</u>	<u>21.08</u>

The options outstanding at 30 June 2009 had a weighted average remaining contractual life of 6.9 years.

The inputs into the Black-Scholes option pricing model are as follows

	2009	2008
Weighted average exercise price		
Expected life	5.88 years	5.71 years
Expected volatility	32.79%	32.20%
Risk-free rate	2.93%	3.52%
Expected dividend yield	n/a	n/a
Forfeiture rate	4.0%	4.0%

Expected volatility

Expected volatility is calculated based on median volatility for peer companies using 7.5 years of daily stock price history.

Expected life

The expected life of the option represents the period of time (years) that options granted are expected to be outstanding, which the company calculates using a formula based on the vesting term and the contractual life of the respective option.

Risk-free interest rate

The risk free rate was based on the yields on US treasury bonds of term similar to the expected life at the date of grant.

Coty Manufacturing UK Limited

Notes to the accounts Year ended 30 June 2009

16 Share-based payments (continued)

Forfeiture rate

The Company uses historical data to estimate pre-vesting option forfeitures, which yields a forfeiture rate of 4.0 percent. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates.

The company has recorded liabilities of £256,541 relating to share based payments (2008: £1,219,000) and total income of £303,568 in 2009 (2008: expense of £192,000).

17. Combined reconciliation of movements in shareholders' funds and statement of movements on reserves

	Share capital £'000	Capital reserve £'000	Profit and loss account £'000	Total 2009 £'000	Total 2008 £'000
At 1 July	20,050	10	37,737	57,797	56,604
Profit retained and transferred to reserves	-	-	2,940	2,940	1,193
At 30 June	<u>20,050</u>	<u>10</u>	<u>40,677</u>	<u>60,737</u>	<u>57,797</u>

18 Capital commitments

	2009 £'000	2008 £'000
Contracted for but not provided	<u>792</u>	<u>1,041</u>

19. Operating lease commitments

At 30 June 2009, the company was committed to making the following payments during the next year in respect of operating leases that expire:

	2009 Other £'000	2008 Other £'000
Within one year	49	41
Within 2 to 5 years	<u>7</u>	<u>2</u>
	<u>56</u>	<u>43</u>

Coty Manufacturing UK Limited

Notes to the accounts

Year ended 30 June 2009

20. Ultimate parent company and controlling party

The directors regard Donata Holding SE (a Societas Europea) as the company's ultimate parent and controlling party

Coty Inc is the parent undertaking of the largest and smallest group of which Coty Manufacturing UK Limited is a member and for which group accounts are drawn up Group accounts are available from 2 Park Avenue, New York, USA

At the balance sheet date the immediate parent company was Coty Brands Group Limited

21 Related party transactions

In accordance with Financial Reporting Standard No 8 "Related Party Transactions", transactions with other group undertakings within, and investee related parties of, Coty Inc have not been disclosed in these accounts