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Registration number 903624

**Hawaiian Tropic Europe Inc.**  
**Financial Statements**  
**for the year ended 31st December 2005**



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COMPANIES HOUSE 23/11/2006

## **Hawaiian Tropic Europe Inc.**

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**Hawaiian Tropic Europe Inc.**

**Independent auditors' report to the shareholders of  
Hawaiian Tropic Europe Inc.**

We have audited the financial statements of Hawaiian Tropic Europe Inc. for the year ended 31st December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective March 2000), under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and Irish Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1963 to 2005. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an Extraordinary General Meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the company's balance sheet and its profit and loss account are in agreement with the books of account and returns.

We report to the shareholders if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

**Hawaiian Tropic Europe Inc.**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent auditors' report to the shareholders of Hawaiian Tropic Europe Inc. continued**

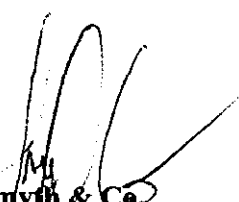
**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Acts 1963 to 2005.

We have obtained all the information and explanations that we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet, are less than half of the amount of its called up share capital and, in our opinion, on that basis there did exist at 31 December 2005 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983, may require the convening of an extraordinary general meeting of the company.



**Smyth & Co.**  
**Chartered Accountants**  
**Registered Auditors**

**The Village Square,**  
**Tallaght,**  
**Dublin 24.**

**3rd May 2006**

**Hawaiian Tropic Europe Inc.**

**Profit and loss account  
for the year ended 31st December 2005**

		<b>2005</b>	<b>2004</b>
	<b>Notes</b>	<b>\$</b>	<b>\$</b>
<b>Turnover</b>		8,517,854	6,085,014
Cost of sales		(3,993,402)	(2,291,206)
<b>Gross profit</b>		<u>4,524,452</u>	<u>3,793,808</u>
Distribution & Administrative expenses		(6,421,555)	(3,844,918)
<b>Operating loss</b>	<b>2</b>	<u>(1,897,103)</u>	<u>(51,110)</u>
Other interest receivable and similar income		35,258	33,245
Interest payable and similar charges		<u>(11,091)</u>	<u>(206,270)</u>
<b>Loss on ordinary activities before taxation</b>		<u>(1,872,936)</u>	<u>(224,135)</u>
Tax on loss on ordinary activities		<u>7,657</u>	<u>8,612</u>
<b>Loss on ordinary activities after taxation</b>		<u>(1,865,279)</u>	<u>(215,523)</u>
<b>Loss for the year</b>		<u>(1,865,279)</u>	<u>(215,523)</u>
Retained profit brought forward		<u>244,157</u>	<u>459,680</u>
<b>Accumulated (loss)/profit carried forward</b>		<u><u>(1,621,122)</u></u>	<u><u>244,157</u></u>

**The notes on pages 6 to 9 form an integral part of these financial statements.**

**Hawaiian Tropic Europe Inc.**

**Balance sheet  
as at 31st December 2005**

		2005		2004	
	Notes	\$	\$	\$	\$
<b>Fixed assets</b>					
Tangible assets	4		684,140		568,481
<b>Current assets</b>					
Stocks	5	3,789,220		3,297,415	
Debtors	6	658,591		235,536	
Cash at bank and in hand		686,110		2,162,380	
		<u>5,133,921</u>		<u>5,695,331</u>	
<b>Creditors: amounts falling due within one year</b>	7	<u>(7,363,530)</u>		<u>(5,944,002)</u>	
<b>Net current liabilities</b>			<u>(2,229,609)</u>		<u>(248,671)</u>
<b>Net (liabilities)/assets</b>			<u>(1,545,469)</u>		<u>319,810</u>
<b>Capital and reserves</b>					
Called up share capital			1,000		1,000
Share premium account	8		479,000		479,000
Other reserves	8		(404,347)		(404,347)
Profit and loss account	8		<u>(1,621,122)</u>		<u>244,157</u>
<b>Shareholders' funds</b>			<u>(1,545,469)</u>		<u>319,810</u>

**The notes on pages 6 to 9 form an integral part of these financial statements.**

# Hawaiian Tropic Europe Inc.

## Cash flow statement for the year ended 31st December 2005

	2005		2004	
	\$	\$	\$	\$
<b>Cash generated from operations</b>				
Operating loss	(1,889,446)		(42,498)	
Reconciliation to cash generated from operations:				
Depreciation	82,954		76,184	
(Increase) in stocks	(491,805)		(1,911,087)	
(Increase) in trade debtors	(397,100)		(205,139)	
(Increase) in other debtors	(25,955)		27,479	
(Decrease) in trade creditors	(25,435)		(112,712)	
Increase in other creditors	1,436,438		3,023,695	
		(1,310,349)		855,922
<b>Cash from other sources</b>				
Interest received	35,258		33,245	
Proceeds from sales of tangible fixed assets	47,891		4,067	
		83,149		37,312
<b>Application of cash</b>				
Interest paid	(11,091)		(206,270)	
Purchase of tangible fixed assets	(237,979)		(118,242)	
		(249,070)		(324,512)
<b>Net decrease in cash in the year</b>		(1,476,270)		568,722
Cash at bank and in hand less overdrafts at beginning of year		2,162,380		1,593,658
<b>Cash at bank and in hand less overdrafts at end of year</b>		686,110		2,162,380
Consisting of:				
Cash at bank and in hand		686,110		2,162,380

### Major non-cash transactions: finance leases

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of €8,525.

## **Hawaiian Tropic Europe Inc.**

### **Notes to the financial statements for the year ended 31st December 2005**

#### **1. Accounting Policies**

Hawaiian Tropic Europe Inc. (the "Company" or "HTEI") is a wholly owned subsidiary of Tiki Hut Holding Company, Inc. ("THC"). All of the shares of HTEI are held by THC. THC also holds all of the shares of Tanning Research Laboratories, Inc. ("TRL"), the manufacturer of Hawaiian Tropic sun care products. The Company is the distributor for the sale of Hawaiian Tropic products in Europe and is primarily engaged in the marketing of consumer sun care products, principally lotions and oils.

##### **1.1. Accounting convention**

The financial statements are prepared under the historical cost convention .

##### **1.2. Turnover**

Turnover represents the total invoice value, excluding value added tax, of sales made during the year. Revenue from product sales is recognised when the product is shipped to distributors or other customers and title to product passes costs incurred by the Company for discounts, price reductions, coupons and co-operative advertising are included as a reduction of net product sales.

##### **1.3. Tangible fixed assets and depreciation**

Property and equipment is stated at cost less accumulated depreciation. Expenditures for additions and improvements which extend the life of the assets are capitalised. Expenditure for maintenance and repairs are charged to expense as incurred. Gains and losses resulting from sales or retirements are recorded as incurred, at which time the cost and accumulated depreciation are removed from the accounts.

Depreciation is provided for by using the straight-line method over the following asset lives :

	<b>Years</b>
Land and buildings	- 39
Computer Equipment	- 5
Fixtures & Fittings	- 5-7
Motor vehicles	- 3-5

##### **1.4. Leasing and hire purchase commitments**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce constant periodic rates of charge on the net obligations outstanding in each period.

##### **1.5. Stock**

Stock is valued at the lower of cost and net realisable value. Cost is determined by weighted average first-in, first-out (FIFO) method.



## **Hawaiian Tropic Europe Inc.**

### **Notes to the financial statements for the year ended 31st December 2005**

..... continued

#### **1.6. Foreign currencies**

In 2002, the Company changed its functional currency from the euro to the U.S dollar. The majority of the Company's sales are made to customers in non-euro countries and substantially all of the Company's inventory purchases are denominated in foreign currency are translated at the spot rate on the date of transaction and the related gain or loss is reflected as a component of income. As a result, all foreign currency translation gains and losses for the years ended 31st December 2004 and 2003 are included in the Profit and Loss account.

At 31st December 2005 and 2004, a foreign currency loss of \$501,000 and a gain of \$113,000 respectively, is included in distribution and administration expenses.

#### **1.7 Impairment losses**

If the carrying value of a long-lived asset exceeds the sum of estimated future discounted cash flows from the operation of the asset, an impairment loss is recognised for the difference between the asset's estimated fair value and carrying value.

#### **1.8 Income Taxes**

The Company was established as a United States Subchapter S Corporation. These provisions provide that the taxable income of the Company be included in the tax returns of the shareholders. Accordingly, no federal or state income taxes have been provided for in the accompanying financial statements.

#### **1.9 Use of Estimates**

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

<b>2. Operating loss</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Operating loss is stated after charging:		
Depreciation and other amounts written off tangible assets	82,954	76,184
Auditors' remuneration	12,000	12,000
	<u>          </u>	<u>          </u>
<b>3. Interest receivable and similar income</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Bank interest	35,258	33,245
	<u>          </u>	<u>          </u>

# Hawaiian Tropic Europe Inc.

## Notes to the financial statements for the year ended 31st December 2005

..... continued

4. Tangible fixed assets	Land and buildings freehold	Computer Equipment	Fixtures, fittings and equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
At 1st January 2005	638,950	95,726	90,027	110,206	934,909
Additions	116,711	12,751	15,233	101,809	246,504
Disposals	-	-	-	(57,468)	(57,468)
At 31st December 2005	<u>755,661</u>	<u>108,477</u>	<u>105,260</u>	<u>154,547</u>	<u>1,123,945</u>
<b>Depreciation</b>					
At 1st January 2005	180,315	47,289	53,941	84,883	366,428
On disposals	-	-	-	(9,577)	(9,577)
Charge for the year	23,733	17,448	6,861	34,912	82,954
At 31st December 2005	<u>204,048</u>	<u>64,737</u>	<u>60,802</u>	<u>110,218</u>	<u>439,805</u>
<b>Net book values</b>					
At 31st December 2005	<u>551,613</u>	<u>43,740</u>	<u>44,458</u>	<u>44,329</u>	<u>684,140</u>
At 31st December 2004	<u>458,635</u>	<u>48,437</u>	<u>36,086</u>	<u>25,323</u>	<u>568,481</u>

Included above are assets held under finance leases or hire purchase contracts as follows:

Asset description	2005		2004	
	Net	Depreciation	Net	Depreciation
	book value	charge	book value	charge
	\$	\$	\$	\$
Motor vehicles	<u>5,686</u>	<u>2,839</u>	<u>-</u>	<u>-</u>
5. Stocks			2005	2004
			\$	\$
Finished goods and goods for resale			<u>3,789,220</u>	<u>3,297,415</u>

# Hawaiian Tropic Europe Inc.

## Notes to the financial statements for the year ended 31st December 2005

..... continued

6. Debtors	2005 \$	2004 \$
Trade debtors	625,483	228,383
Prepayments and accrued income	33,108	7,153
	<u>658,591</u>	<u>235,536</u>

7. Creditors: amounts falling due within one year	2005 \$	2004 \$
Note payable to TRL	-	13,759
Net obligations under finance leases and hire purchase contracts	8,525	-
Trade creditors and Accruals	393,462	472,828
Amounts due to TRL	6,961,543	5,457,415
	<u>7,363,530</u>	<u>5,944,002</u>

8. Reserves	Share premium account \$	Profit and loss account \$	Accum. Other comprehensive Loss \$	Treasury stock \$	Total \$
At 1st January 2005	479,000	244,157	(396,213)	(8,134)	318,810
Loss for the year		(1,865,279)			(1,865,279)
At 31st December 2005	<u>479,000</u>	<u>(1,621,122)</u>	<u>(396,213)</u>	<u>(8,134)</u>	<u>(1,546,469)</u>

### 9. Related party transactions

Management fees paid to TRL totaled approximately \$1,019,500 and \$668,000 for the years ending 31st December 2005 and 31st December 2004 respectively. Interest expense on amounts due at TRL amounted to approximately \$309 and \$192,000 in 2005 and 2004 respectively. All amounts due to TRL are payable in U.S dollars. The company is a guarantor of a mortgage loan payable by TRL to a bank in the amount of \$650,000.

**Hawaiian Tropic Europe Inc.**

**The following pages do not form part of the statutory accounts.**

# Hawaiian Tropic Europe Inc.

## Detailed trading and profit and loss account for the year ended 31st December 2005

	2005		2004	
	\$	\$	\$	\$
<b>Sales</b>				
Sales		8,517,854		6,085,014
		<u>8,517,854</u>		<u>6,085,014</u>
<b>Cost of sales</b>	3,993,402		2,291,206	
	<u>3,993,402</u>	(3,993,402)	<u>2,291,206</u>	(2,291,206)
<b>Gross profit</b>		4,524,452		3,793,808
<b>Distribution costs</b>	317,572		107,140	
<b>Administrative expenses</b>	6,103,983		3,737,778	
	<u>6,103,983</u>	(6,421,555)	<u>3,737,778</u>	(3,844,918)
<b>Operating loss</b>		(1,897,103)		(51,110)
<b>Other income and expenses</b>				
<b>Interest receivable</b>				
Bank deposit interest	35,258		33,245	
	<u>35,258</u>	35,258	<u>33,245</u>	33,245
<b>Interest payable</b>				
Bank interest	10,017		206,270	
Interest on loans repayable in less than 5 years	309		-	
HP interest and fin. lease charges	765		-	
	<u>10,391</u>	(11,091)	<u>206,270</u>	(206,270)
<b>Net loss for the year</b>		<u>(1,872,936)</u>		<u>(224,135)</u>

# **Hawaiian Tropic Europe Inc.**

## **Distribution costs and administrative expenses for the year ended 31st December 2005**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Distribution costs</b>		
Carriage outwards	317,572	107,140
	<u>317,572</u>	<u>107,140</u>
<b>Administrative expenses</b>		
Wages and salaries	1,519,421	1,166,035
Management expenses	1,019,425	667,655
Rent payable	33,357	28,689
Insurance	39,153	35,866
Light and heat	29,104	30,098
Repairs and maintenance	9,673	9,950
Printing, postage and stationery	168,907	122,813
Advertising	1,525,955	899,359
Telephone	28,533	30,183
Motor expenses	32,248	22,757
Travelling and entertainment	293,828	228,248
Legal and professional	540,621	438,292
Bad debts	-	8,455
Profit/loss on exchange	501,399	(113,416)
Stores / Canteen	221,503	52,713
General expenses	20,473	9,066
Subscriptions	37,429	24,831
Depreciation on freehold property	23,733	18,818
Depreciation on plant and machinery	6,861	5,555
Depreciation on FF & Equipment	17,448	15,067
Depreciation on motor vehicles	34,912	36,744
	<u>6,103,983</u>	<u>3,737,778</u>