

COMPANY NUMBER SC80712

REGISTERED OFFICE 82/90 KELVIN AVENUE
HILLINGTON INDUSTRIAL ESTATE
GLASGOW
G52 4LT

AUDITORS TENON AUDIT LIMITED
UNIT 3, GATEWAY BUSINESS PARK
BEANCROSS ROAD
GRANGEMOUTH
FK3 8WX

**ACCOUNTANTS AND
BUSINESS ADVISERS** TENON LIMITED
UNIT 3, GATEWAY BUSINESS PARK
BEANCROSS ROAD
GRANGEMOUTH
FK3 8WX

ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 30TH SEPTEMBER 2004

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PROFESSIONAL BEAUTY SYSTEMS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30TH SEPTEMBER 2004

The directors present their report and the audited financial statements for the year ended 30th September 2004.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company continues to be the manufacture and sale of professional haircare and beauty products to the trade.

During the period covered by these accounts turnover has shown significant growth and the directors are confident that this trend will continue.

The new production facility which was occupied in December 2003 has undoubtedly contributed to the growth in turnover and allowed stocks of finished goods to be held which has improved service levels to clients.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5.

The directors do not recommend payment of a final dividend.

POST BALANCE SHEET EVENTS

Since the year end, the company has established an Employee Benefit Trust to assist in the reward and motivation of the company's employees.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the company were as stated below:

	Ordinary shares	
	At 30th Sep '04	At 1st Oct '03
Gerard Patrick Hegarty	-	-
Brian Aitken	-	-
Stephen James MacDonough	-	-

The directors have the following interest in shares in the ultimate parent undertaking - Salon Services (Holdings) Limited:

Gerard Patrick Hegarty - 1,544 shares, Brian Aitken - 25 shares and Stephen James MacDonough - 50 shares.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' REPORT FOR THE YEAR ENDED 30TH SEPTEMBER 2004

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

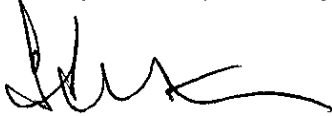
AUDITORS

On 28th February 2005 our auditors, Blueprint Audit Limited, changed their name to Tenon Audit Limited and have signed the report in their new name.

The company has by elective resolution under Section 386(1) of the Companies Act 1985 dispensed with the annual reappointment of the auditors. Tenon Audit Limited will be deemed to be reappointed for each succeeding financial year.

This report is prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

This report was approved by the Board on 20th May 2005 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'B. Aitken', with a long horizontal flourish extending to the right.

BRIAN AITKEN
COMPANY SECRETARY

**INDEPENDENT AUDITORS' REPORT TO PROFESSIONAL BEAUTY SYSTEMS LIMITED
UNDER SECTION 247B OF THE COMPANIES ACT 1985**

We have examined the abbreviated accounts set out on pages 5 to 15, together with the financial statements of Professional Beauty Systems Limited for the year ended 30th September 2004 prepared under Section 226 of the Companies Act 1985.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing abbreviated accounts in accordance with Section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with Section 246A(3) of the Act to the Registrar of Companies and whether the accounts to be delivered are properly prepared in accordance with that provision and to report our opinion to you.

BASIS OF OPINION

We have carried out the procedures we considered necessary to confirm, by reference to the accounts, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the full financial statements.

OPINION

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with Section 246A(3) of the Companies Act 1985 in respect of the year ended 30th September 2004, and the abbreviated accounts on pages 5 to 15 are properly prepared in accordance with that provision.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Tenon Audit Limited

**TENON AUDIT LIMITED
REGISTERED AUDITOR
GRANGEMOUTH**

Dated: 22/09/2005

PROFESSIONAL BEAUTY SYSTEMS LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

	Note	2004 £	2003 £
GROSS PROFIT		2,808,056	1,880,572
Administrative expenses		(1,935,948)	(1,466,167)
OPERATING PROFIT	2	872,108	414,405
Interest payable and similar charges	3	(78,258)	(50,397)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		793,850	364,008
Tax on profit on ordinary activities	5	(252,544)	(90,516)
RETAINED PROFIT FOR THE YEAR		541,306	273,492
Retained profit brought forward		1,744,543	1,471,051
RETAINED PROFIT CARRIED FORWARD		2,285,849	1,744,543

All amounts relate to continuing activities.

There are no recognised gains or losses other than the profits for the above two financial years.

The notes on pages 7 to 15 form an integral part of these accounts.

PROFESSIONAL BEAUTY SYSTEMS LIMITED

BALANCE SHEET

AS AT 30TH SEPTEMBER 2004

		2004		2003	
	Note	£	£	£	£
FIXED ASSETS					
Tangible assets	6		2,087,623		1,947,645
CURRENT ASSETS					
Stocks	8	1,102,672		558,971	
Debtors	9	1,498,063		1,281,521	
Cash at bank and in hand		9,889		440	
		<u>2,610,624</u>		<u>1,840,932</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>(946,968)</u>		<u>(734,417)</u>	
NET CURRENT ASSETS			<u>1,663,656</u>		<u>1,106,515</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>3,751,279</u>		<u>3,054,160</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11		(1,402,500)		(1,278,505)
PROVISION FOR LIABILITIES AND CHARGES	12		<u>(62,830)</u>		<u>(31,012)</u>
NET ASSETS			<u><u>2,285,949</u></u>		<u><u>1,744,643</u></u>
CAPITAL AND RESERVES					
Called up share capital	13		100		100
Profit and loss account			<u>2,285,849</u>		<u>1,744,543</u>
EQUITY SHAREHOLDERS' FUNDS	14		<u><u>2,285,949</u></u>		<u><u>1,744,643</u></u>

The abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

The abbreviated accounts were approved by the Board on 20th May 2005 and signed on its behalf by


GERARD PATRICK HEGARTY
 DIRECTOR


BRIAN AITKEN
 DIRECTOR

The notes on pages 7 to 15 form an integral part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004

1. ACCOUNTING POLICIES

1.1. Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemption in FRS1 from the requirement to produce a cashflow statement because group consolidated financial statements are prepared. The company is entitled to the exemption under Section 228 of the Companies Act 1985 from the obligation to prepare group accounts. Group accounts are prepared by the ultimate holding company, Salon Services (Holdings) Ltd.

1.2. Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year.

1.3. Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Freehold Property	-	Nil
Fittings & Equipment	-	15% Reducing Balance
Motor Vehicles	-	25% Straight Line
Computer Equipment	-	15% Straight Line

No depreciation is provided in respect of the company's heritable property as it is the directors belief that the residual value of this is at least equal to the carrying value. Having regards to this it is considered that the depreciation of such property as required by the Companies Act 1985 and standard accounting practice would not be material.

Heritable property is reviewed for impairment at the end of each year in accordance with the requirements of FRS 11. An impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, being the higher of net realisable value and value in use. An asset is impaired to the extent that the carrying amount exceeds the recoverable amount.

Any impairment loss identified is recognised in the profit and loss account.

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.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

1.5. Stock

Stocks are stated at the lower of cost and net realisable value. Cost comprises the purchase cost of the materials and an appropriate proportion of production overheads, where applicable.

1.6. Pensions

The company operates a defined contribution scheme. The pension costs charged in the financial statements represent the contribution payable by the company during the year.

1.7. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred by the balance sheet date with certain limited exceptions.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. No deferred tax asset is included in these financial statements as its recoverability at this stage is relatively uncertain.

1.8. Employee Benefit Trusts

The company has established trusts for the benefit of employees and certain of their dependants. Monies held in these trusts are held by independent trustees and managed at their discretion.

Where the company retains future economic benefit from, and has de facto control of the assets and liabilities of the trust, they are accounted for as assets and liabilities of the company until the earlier of the date that an allocation of trust funds to employees in respect of past services is declared and the date that assets of the trust vest in identified individuals.

Where monies held in trust are determined by the company on the basis of employees past services to the business and the company can obtain no future economic benefit from these monies, such monies, whether in the trust or accrued for by the company are charged to the profit and loss account in the period to which they relate.

2. OPERATING PROFIT

	2004	2003
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	142,249	61,488
Loss/(profit) on disposal of tangible fixed assets	9,531	-
Auditors' remuneration	2,750	2,750

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
On bank loans and overdrafts	77,594	49,733
Hire purchase interest	664	664
	<u>78,258</u>	<u>50,397</u>

4. EMPLOYEES

Number of employees

The average monthly numbers of employees
(including the directors) during the year were:

	2004 Number	2003 Number
Administration	4	4
Production	84	68
	<u>88</u>	<u>72</u>

Employment costs

	2004 £	2003 £
Wages and salaries	1,014,239	808,844
Social security costs	76,977	59,911
Other pension costs	4,675	13,084
	<u>1,095,891</u>	<u>881,839</u>

4.1. DIRECTORS' EMOLUMENTS

	2004 £	2003 £
Remuneration and other emoluments	17,495	53,710
Pension contributions	-	10,084
	<u>17,495</u>	<u>63,794</u>

	Number	Number
Number of directors to whom retirement benefits are accruing under a money purchase scheme	<u>1</u>	<u>1</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
(a) Analysis of charge in the year		
Current tax:		
In respect of the year:		
UK Corporation Tax based on the results for the year at 30% (2003 - 30%)	220,726	76,544
Transfer to deferred taxation	31,818	13,972
	<u>252,544</u>	<u>90,516</u>

(b) Factors affecting current tax charge

The tax assessed on the Profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK at 30% (30th September 2003 - 30%).

	2004 £	2003 £
Profit on ordinary activities before taxation	793,850	364,008
Profit on ordinary activities by rate of tax	238,155	109,202
Expenses not deductible for tax purposes	5,884	6,049
Capital allowances for the year in excess of depreciation	(23,313)	(38,707)
	<u>220,726</u>	<u>76,544</u>

6. TANGIBLE FIXED ASSETS

	Freehold Property	Fittings & Equipment	Motor Vehicles	Computer Equipment	Total
	£	£	£	£	£
Cost					
At 1st October 2003	1,264,600	847,521	36,068	7,533	2,155,722
Additions	1,800	288,684	-	1,274	291,758
Disposals	-	(30,097)	-	(3,889)	(33,986)
At 30th September 2004	<u>1,266,400</u>	<u>1,106,108</u>	<u>36,068</u>	<u>4,918</u>	<u>2,413,494</u>
Depreciation					
At 1st October 2003	-	186,546	16,046	5,485	208,077
On disposals	-	(20,566)	-	(3,889)	(24,455)
Charge for the period	-	132,537	9,024	688	142,249
At 30th September 2004	<u>-</u>	<u>298,517</u>	<u>25,070</u>	<u>2,284</u>	<u>325,871</u>
Net book values					
At 30th September 2004	<u>1,266,400</u>	<u>807,591</u>	<u>10,998</u>	<u>2,634</u>	<u>2,087,623</u>
At 30th September 2003	<u>1,264,600</u>	<u>660,975</u>	<u>20,022</u>	<u>2,048</u>	<u>1,947,645</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

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

Asset description	2004		2003	
	Net	Depreciation	Net	Depreciation
	book value £	charge £	book value £	charge £
Motor Vehicles	10,362	7,776	18,138	7,773

7. FIXED ASSET INVESTMENTS

	Subsidiary Undertakings Shares	Total
	£	£
Cost		
At 1st October 2003 & At 30th September 2004	100	100
Provisions for diminution in value:		
At 1st October 2003 & At 30th September 2004	100	100
Net book values		
At 30th September 2004	-	-
At 30th September 2003	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

7.1. Holdings of 20% or more

The company holds 20% or more of the share capital of the following companies:

Company	Country of registration or incorporation	Description of trade
Subsidiary undertaking		
Salon Services (Franchising) Limited	Scotland	Sale of Hair & Beauty Supplies through franchised units bearing the Salon Services name.

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves £	Shares held Class	%	Profit/(Loss) for the year £
Salon Services (Franchising) Limited	158,510	Ordinary	100%	186,241

8. STOCKS

	2004 £	2003 £
Finished goods and goods for resale	1,102,672	558,971

9. DEBTORS

	2004 £	2003 £
Trade debtors	342,858	322,326
Amounts owed by group undertakings	1,148,802	953,843
Other debtors	4,788	1,954
Prepayments and accrued income	1,615	3,398
	1,498,063	1,281,521

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004

10. CREDITORS: AMOUNTS FALLING DUE
WITHIN ONE YEAR

	2004 £	2003 £
Bank overdraft	-	149,561
Bank loan	170,000	127,500
Net obligations under finance leases and hire purchase contracts	1,855	8,248
Trade creditors	351,262	248,196
Corporation tax	220,726	76,544
Accruals and deferred income	203,125	124,368
	<u>946,968</u>	<u>734,417</u>

The bank loan noted above is secured by a bond and floating charge over all the group companies and a standard security over various group properties.

11. CREDITORS: AMOUNTS FALLING DUE
AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Bank loan	1,402,500	1,276,650
Net obligations under finance leases and hire purchase contracts	-	1,855
	<u>1,402,500</u>	<u>1,278,505</u>

Loans

Repayable in one year or less, or on demand (Note 10)	170,000	127,500
Repayable between one and two years	170,000	170,000
Repayable between two and five years	510,000	510,000
Repayable in five years or more	722,500	596,650
	<u>1,572,500</u>	<u>1,404,150</u>

The bank loan noted above is secured by a bond and floating charge over all the group companies and a standard security over various group properties and is subject to an interest rate of 1.75% over bank base rate.

**Net obligations under finance leases
and hire purchase contracts**

Repayable within one year	1,855	8,248
Repayable between one and five years	-	1,855
	<u>1,855</u>	<u>10,103</u>

Balances due on HP/Finance Lease agreements are secured on the assets to which they relate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004**

12. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax is analysed over the following timing differences:

	Provided	
	2004	2003
	£	£
Accelerated capital allowances	62,830	31,012
Movements on the provision for deferred taxation are:	2004	2003
	£	£
At 1st October 2003	31,012	17,040
Transferred from profit and loss account	31,818	13,972
At 30th September 2004	62,830	31,012

13. SHARE CAPITAL

	2004	2003
	£	£
Authorised equity		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid equity		
100 Ordinary shares of £1 each	100	100

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004	2003
	£	£
Profit for the year	541,306	273,492
Opening shareholders' funds	1,744,643	1,471,151
	2,285,949	1,744,643
Analysis of shareholders funds:		
Equity	2,285,949	1,744,643

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 2004

15. CAPITAL COMMITMENTS

	2004 £	2003 £
Details of capital commitments at the accounting date are as follows:		
Contracted for but not provided in the financial statements	-	188,538

16. CONTINGENT LIABILITIES

There is a contingent liability of £2,217,115 (2003:£930,428) in respect of letters of guarantee and letters of offset, given to the bank covering various group members.

17. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is Salon Services (Holdings) Limited, a company which is registered in Scotland.

18. POST BALANCE SHEET EVENTS

Since the year end, the company has established an Employee Benefit Trust to assist in the reward and motivation of the company's employees.