

SUNDARI LLC.

Board of Managers

Mr. Harsh Mariwala

Mr. Abel Halpern (Until March 1, 2005)

Mr. Arnab Banerjee (nominee of Marico Limited)

Ms. Vinita Bali (Until November 21, 2004)

Mr. Asif Adil (Until June 18, 2004)

Principal / Corporate Office

379, West Broadway, Suite 404,

New York, NY 10012, USA

Independent Accountants

R. Rehani & Co.

Certified Public Accountants, P.C.

225 West 34th Street Suite 1404A

New York, NY 10122, USA

Bankers

JP Morgan Chase

Citibank NA

REPORT OF BOARD OF MANAGERS

To,

The Members

Your Board takes pleasure in presenting the Second Annual Report together with audited accounts of your Company for the year ended December 31, 2004.

FINANCIAL RESULTS

	(USD Crore)*		(Rs. Crore)	
	2004	2003#	2004	2003#
Sales	0.11	0.07	5.02	3.25
Gross Profit	0.06	0.04	2.71	1.85
Net Operating Profit	(0.11)	(0.08)	(5.05)	(3.91)

* The exchange rate used for conversion of figures in USD to Rs. is Rs.44.73/USD (Rs. 46.55/USD)

Your company commenced operations on February 27,2003. As a result, the figures pertain to a period of 10 months of operation.

REVIEW OF OPERATIONS

During FY04, the business continued to operate under an Investment Phase and as a result, Sundari reported an operating loss.

After it started focusing on the Spa channel, your Company has been able to get an entry into the top notch Spas across US. Focussed efforts are on to expand the Sundari net into the Spa channel. Sundari has adopted the strategy of identifying big prospective Spa clients in order to create an opportunity to convert a good proportion of these prospects into business. Sundari has been in the business for the last five years and after Marico acquired a controlling stake last year, there has been a focussed effort in the area of cost management. These efforts would help improve product margins and in the process bring down the pressure on the overall bottomline. Your Company has also been concentrating on new products development; leveraging Marico's R&D in India. In the recent past Sundari has been able to roll out 5 new products in the US market. In the International market, Sundari has commenced scoping and is in the process of appointing full service distributors.

As Sundari plans for its future, the likely growth drivers for Sundari are:

1. Entry into big accounts in the spa channel – especially destination spas
2. Quick scale up in the international business through full service distributors in the Asian markets
3. New Product development so that Sundari can address customer needs especially in destination spas
4. Enhancing Sundari experience, through uniquely developed protocols for administration in Spas

Overall, the strategy for growth appears to be in place for your Company's business. The Spa opportunity has a lag time of 6 to 9 months from the time a prospect is approached till the time an order is bagged. The business would therefore have to focus on both growth and cost management simultaneously to ensure derisked growth.

SHAREHOLDING AND MANAGEMENT

During the year under review, your Company's holding company, Marico Limited, further increased its stake in your Company from 63% to 75.5%.

To adequately support Sundari's expansion and profitability, Mr. Arnab Banerjee has been nominated as the Manager in charge of the overall operations of Sundari business with effect from June 14, 2004. He is supported by Mr. Rahul Koul, who looks after the US operations and Mr. Samir Srivastava, who looks after the international portfolio. Mr. Rahul Koul is further supported by a team of senior and middle managers.

The Board composition further witnessed changes in the form of exits. Ms. Vinita Bali who was appointed as a Manager on June 14, 2004 expressed her desire to discontinue and resigned with effect from November 21, 2004. Mr. Asif Adil and Mr. Abel Halpern, Board members since inception, also resigned with effect from June 18, 2004 and March 01, 2005 respectively. Your Board places on record its appreciation for the contribution made by them during their tenure.

SUNDARI LLC.

REPORT OF BOARD OF MANAGERS

SUBSIDIARY

Sundari Spa LLC, a wholly owned subsidiary of your Company, which did not have operations has been dissolved in March 2005.

DIVIDEND

Considering the financial position of the Company and in order to conserve resources for growth, no dividend is being proposed for this year.

INDEPENDENT ACCOUNTANTS

Messers R. Rehani & Co., Certified Public Accountants, have been appointed as Independent Accountants of the Company.

ACKNOWLEDGEMENT

The Board of Managers acknowledges the support and assistance received from Bankers, Vendors, Distributors and other business associates and looks forward to continued support of all these partners in progress.

For and on behalf of Board of Managers

Place: Mumbai

Date : March 31, 2005

HARSH MARIWALA

SUNDARI LLC.

INDEPENDENT ACCOUNTANTS' REPORT

The Members

Sundari LLC.

We have audited the accompanying balance sheet of Sundari LLC. as at December 31, 2004 and the related statements of members' capital, operations and cash flows for the period February 27, 2003 (inception) to December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Sundari LLC. as at December 31, 2004 and results of its operations and its cash flows for the period then ended in conformity with principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R. Rehani & Co.

Certified Public Accountants, P.C.

New York, New York

February 25, 2005

SUNDARI LLC.

BALANCE SHEET

	ASSETS			
	As At December 31,			
	2004	2003	2004	2003
	USD	USD	Rs. Crores	Rs. Crores
Current assets :				
Cash	54,515	119,273	0.24	0.56
Accounts receivable : less				
allowance for doubtful accounts \$15,500	312,667	85,614	1.40	0.40
Inventories – notes 2 & 3	540,912	569,729	2.42	2.65
Other current assets and prepaid expenses	3,993	17,333	0.02	0.08
Total current assets	<u>912,087</u>	<u>791,949</u>	<u>4.08</u>	<u>3.69</u>
Property and equipment : – notes 2 & 4				
At cost less accumulated depreciation of \$ 3,192	39,586	32,673	0.18	0.15
Other assets :				
Trademark, net of amortisation – note 2	1,450,284	1,560,432	6.49	7.26
Deferred costs – note 2	93,040	122,420	0.42	0.57
Security deposits	30,952	10,850	0.15	0.05
Total current assets	<u>1,574,276</u>	<u>1,693,702</u>	<u>7.04</u>	<u>7.88</u>
TOTAL ASSETS	<u>2,525,949</u>	<u>2,518,324</u>	<u>11.30</u>	<u>11.72</u>

LIABILITIES AND MEMBERS' EQUITY

Current liabilities :				
Accounts payable and accrued expenses	105,437	189,438	0.47	0.87
Customers' credit balances	10,267	8,830	0.05	0.04
Due to members	–	1,466	–	0.01
Total current liabilities	<u>115,704</u>	<u>199,734</u>	<u>0.52</u>	<u>0.92</u>
Commitments – note 7				
Long –term liabilities :				
Loans payable – members – note 5	2,221,573	1,000,000	9.94	4.66
Notes payable – others – note 6	389,012	358,744	1.74	1.67
Total long–term liabilities	<u>2,610,585</u>	<u>1,358,744</u>	<u>11.68</u>	<u>6.33</u>
Total members capital	(200,341)	959,846	(0.90)	4.47
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>2,525,948</u>	<u>2,518,324</u>	<u>11.30</u>	<u>11.72</u>

See accompanying notes and accountants' report

* The exchange rate used for converting amounts in USD to INR is Rs. 44.73 / USD. (Rs. 46.55 / USD)

SUNDARI LLC.

STATEMENT OF MEMBERS' CAPITAL

Amount in USD	As At December 31, 2004			Total
	Marico	Shantih LLC.	Adil & Associates	
Balance at February 27, 2003	–	–	–	–
Capital contributions	1,150,000	538,492	136,905	1,825,397
Net loss for the year	(545,297)	(255,338)	(64,916)	(865,551)
Balance at December 31, 2003	604,703	283,154	71,989	959,846
Capital contributions	120,443	(91,249)	(29,194)	–
Net loss for the year	(804,617)	(312,775)	(42,795)	(1,160,187)
Balance at December 31, 2004	(79,471)	(120,870)	–	(200,341)

Amount in Rs. Crores	As At December 31, 2004			Total
	Marico	Shantih LLC.	Adil & Associates	
Balance at February 27, 2003	–	–	–	–
Capital contributions	5.35	2.51	0.64	8.50
Net loss	(2.54)	(1.19)	(0.30)	(4.03)
Balance at December 31, 2003	2.81	1.32	0.34	4.47
Capital contributions	0.54	(0.41)	(0.13)	–
Net loss for the year	(3.71)	(1.45)	(0.21)	(5.37)
Balance at December 31, 2004	(0.36)	(0.54)	–	(0.90)

See accompanying notes and accountants' report

* The exchange rate used for converting amounts in USD to INR is Rs. 44.73 / USD. (Rs. 46.55 / USD)

SUNDARI LLC.

STATEMENT OF OPERATIONS

	For the year ended December 31,			
	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Net Sales	1,121,787	697,858	5.02	3.25
Cost of sales	516,935	300,445	2.31	1.40
Gross profit	604,852	397,413	2.71	1.85
Operating Expenses :				
Selling, general and administrative	1,548,986	1,114,478	7.10	5.19
Depreciation	9,602	3,524	0.04	0.02
Amortisation	139,529	117,594	0.62	0.55
	<u>1,698,117</u>	<u>1,235,596</u>	<u>7.76</u>	<u>5.76</u>
Net operating loss	(1,093,265)	(838,183)	(5.05)	(3.91)
Other income and (expenses):				
Interest income	538	10,266	–	0.05
Interest expense	(67,460)	(26,826)	(0.32)	(0.12)
Assets written off	–	(10,808)	–	(0.05)
	<u>(66,922)</u>	<u>(27,368)</u>	<u>(0.32)</u>	<u>(0.12)</u>
Net loss	(1,160,187)	(865,551)	(5.37)	(4.03)

See accompanying notes and accountants' report

* The exchange rate used for converting amounts in USD to INR is Rs. 44.73 / USD. (Rs. 46.55 / USD)

SUNDARI LLC.

STATEMENT OF CASH FLOWS

	For the year ended December 31,			
	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Increase (decrease) in cash and cash equivalent:				
A) Cash flows from operating activities:				
Net loss	(1,160,187)	(865,551)	(5.37)	(4.03)
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortisation	149,131	121,118	0.66	0.57
Assets written off	–	10,808	–	0.05
Changes in assets and liabilities:				
Accounts receivable	(227,053)	(77,529)	(0.86)	–
Inventory	28,817	(247,854)	0.13	(1.00)
Other current assets	13,340	(17,333)	0.06	–
Cash at acquisition	–	7,244	–	–
Account payable and accrued expenses	(84,001)	(606,018)	(0.38)	(3.00)
Customer's credit balances	1,437	8,830	0.01	–
			–	
Net cash used in operating activities	(1,278,516)	(1,666,285)	(5.75)	(7.41)
B) Cash flows applied to investing activities:				
Acquisition of property and equipment	(16,516)	(2,653)	(0.07)	–
Security deposits	20,101	(3,255)	0.09	–
Deferred costs	–	(146,905)	–	(1.00)
Net cash applied to investing activities	(36,617)	(152,813)	(0.16)	(1.00)
C) Cash flows provided by (applied to) financing activities:				
Members. Crores' capital contribution	–	1,286,905	–	6.00
Loans payable to members. Crores	1,221,573	1,000,000	5.46	5.00
Decrease in short-term loans	30,268	(350,000)	0.14	(2.00)
Due to members. Crores	(1,466)	1,466	(0.01)	–
Net cash provided by financing activities	1,250,375	1,938,371	5.59	9.00
D) Increase in cash (A + B + C)	(64,758)	119,273	(0.32)	0.59
E) Cash – beginning of year	119,273	–	0.56	–
F) Cash – end of year (D + E)	54,515	119,273	0.24	0.56
Supplementary disclosures:				
Interest paid	938	487	–	–
Taxes paid	–	–	–	–
See accompanying notes and accountants' report				

* The exchange rate used for converting amounts in USD to INR is Rs. 44.73 / USD. (Rs. 46.55 / USD)

SUNDARI LLC.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2004

Note : The exchange rate used for converting amounts in USD to INR is Rs. 44.73 / USD. (Rs. 46.55 / USD)

Note 1 - Operations

In January 2003 Sundari LLC. (the company) was established to acquire the assets and liabilities of Shantih LLC., which was founded in 1998. The company is a Limited Liability Company registered in the state of Delaware. The company markets and distributes skin care products under the brand name of "Sundari" to be sold to prestigious outlets.

Note 2 - Summary of significant accounting policies

a) Inventories:

Inventories are stated at lower of average cost or market.

b) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided over the useful lives of assets using the straight-line method.

c) Cash and cash equivalents:

For the purpose of statement of cash flows, the company considers investments in highly liquid debt instruments with maturity of three months or less to be cash-equivalents.

d) Concentration of risk:

The company maintains its cash in bank deposits at high credit quality institutions. At times during the year the company maintained certain bank accounts in excess of the federally insured limits.

e) Use of estimates:

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

f) Income Taxes:

The company is limited liability taxed as partnership in which all elements of income and deduction are included in tax returns of members of the company. The company is subject to New York unincorporated business tax.

g) Deferred costs:

Deferred costs are being amortised over 60 months, and net of amortization comprise of:

	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Deferred compensation	86,707	114,088	0.39	0.53
Deferred organisation costs	6,333	8,332	0.03	0.04
	<u>93,040</u>	<u>122,420</u>	<u>0.42</u>	<u>0.57</u>

h) Intangibles:

Trademark - represents amount paid for purchase of the trademark "Sundari" and has been determined by reducing the acquisition price by the difference of net assets as reduced by the net liabilities taken over. Trademark is being written off over a period of 15 years.

Note 3 - Inventories

Inventories at December 31 consist of:

	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Packaging	235,603	279,889	1.05	1.30
Finished Goods	305,309	289,840	1.37	1.35
	<u>540,912</u>	<u>569,729</u>	<u>2.42</u>	<u>2.65</u>

SUNDARI LLC.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2004

Note 4 - Property and equipment:

Major classifications of property and equipment and their respective depreciable life are as follows:

	Estimated useful lives - Years	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Equipment	5	31,053	21,031	0.14	0.10
Furniture & fixtures	7	10,574	8,520	0.05	0.04
Leasehold improvements	5	6,646	6,646	0.03	0.03
Website	3	4,440	-	0.02	-
		<u>52,713</u>	<u>36,197</u>	<u>0.24</u>	<u>0.17</u>
Less: Accumulated depreciation and amortisation		13,127	3,524	0.06	0.02
		<u>39,586</u>	<u>32,673</u>	<u>0.18</u>	<u>0.15</u>

Note 5 - Loans payables - members

Loans payable to Marico Limited, a member, bears interest at Libor plus 1.5%. During the period ended December 31, 2004, the company provided \$14,464 (\$ 673,299) interest on the loan. The loan is unsecured.

Note 6 - Notes payable - others

Notes payable to a founder member of Shantih LLC., are due February 26, 2006 and bear interest at 3.5% to 4%. During the period ended 2004, the company provided \$11,875 (\$ 552,781) interest on these notes. The notes are unsecured.

Note 7 - Commitments:

The company leases office space and showroom under an operating lease in September 2005. As at December 31, 2004 the future minimum and annual lease payments were as follows:

	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
For December 31,				
2004	-	74,312	-	0.35
2005	67,484	5,978	0.30	0.03
	<u>67,484</u>	<u>80,290</u>	<u>0.30</u>	<u>0.38</u>

SUNDARI LLC.

SCHEDULES OF SUPPLEMENTARY INFORMATION

	For the year ended December 31,			
	2004 USD	2003 USD	2004 Rs. Crores	2003 Rs. Crores
Cost of Sales:				
Opening inventory	569,729	–	2.55	–
Purchases	192,546	583,234	0.86	2.71
Manufacturing and Processing	125,463	231,164	0.56	1.08
Other Costs	170,109	55,776	0.76	0.26
	318,009	870,174	1.42	4.05
Less : Inventory - end	540,912	569,729	2.42	2.65
Total Cost of sales	516,935	300,445	2.31	1.40
Selling, general and administrative expenses:				
Payroll and benefits	513,556	395,344	2.30	1.84
Rent	67,115	62,634	0.30	0.29
Utilities	6,064	4,888	0.03	0.02
Telephone	27,295	17,620	0.12	0.08
Insurance	26,599	16,548	0.12	0.08
Bank and Credit Card fees	17,559	11,158	0.08	0.05
Office supplies and expenses	37,524	21,305	0.17	0.10
Computer supplies and expenses	2,426	3,499	0.01	0.02
Relocation expenses	9,147	5,000	0.04	0.02
Repairs and maintenance	158,813	7,289	0.88	0.03
Professional fees	505	212,307	–	0.99
Business taxes	9,540	3,959	0.04	0.02
Postage and delivery	26,335	17,587	0.12	0.08
Freelance sales force	317,502	41,903	1.42	0.20
Marketing & promotion	57,001	52,041	0.25	0.24
Public relations	65,302	47,652	0.29	0.22
Product development	9,340	105,797	0.04	0.49
Website - internet	185,938	13,519	0.83	0.06
Travel and entertainment	6,000	71,128	0.03	0.33
Auto expenses	5,425	3,300	0.02	0.02
Total Selling, general and administrative expenses	1,548,986	1,114,478	7.10	5.18