ACCOUNTING POLICY

Based on art. 10 act 2 of 29.09.1994 on accounting (Dz. U. Nr 121 poz.591 z p. zm.) hereinafter referred to as the Act, decides as follows:

1

The business year is the calendar year, i.e. the period from January 1st to December 31st. It includes a shorter reporting period: a month - to sum up the turnover on main ledger accounts and reconcile with the account book and entries on the accounts of auxiliary books, kept to synthetic accounts included in the list of ledger accounts.
Erca Wilmar Cosmetic Ingredients' accounting policy is based on:

- a list of synthetic accounts (app 1);
- characteristics of computer data processing system (app 2);
- settlements in the area of accounting records and valuation of non-current assets.

2

Company accounting is maintained by the accounting office "Konsultant Sp. z o.o.". The books and source proofs are kept at the company headquarter in accordance with the law, only temporarily are located in the Accounting Office to which the current accounting was contracted.

3

An affiliated entity are shareholders i.e. Societa' Chimica Lombarda SpA with headquarter in Milan and Erca SpA located in Grassobbio.
The company does not prepare a consolidated balance sheet.

4

Valuation of assets and liabilities is carried out as at the balance sheet date. Valuation is allowed at the end of each reporting period. This applies in particular to the valuation of current assets.

5

The principles of accounting and valuation are in line with the principles developed and included in the MODEL ACCOUNTING PLAN written by I. Iskra, M. Witkowska, T. Żyznowski published by Finans-Servis Zespół Doradców Finansowo-Księgowych. Warsaw 2001.

I. Accounting books are computerized and include:

1. Account book

2. Main ledger accounts (synthetic records), in which each operation is obligatory with the principle of double entry
3. Auxiliary books accounts (analytical records)
4. A list of assets and liabilities
5. Summary of turnover and balances of the main ledger, and summary of auxiliary books balances
6. Cash report
7. VAT registers

II. Accounts of auxiliary books are carried out in systematic order as separate books (data sets) within the ledger accounts; the sum of initial balances and turnover in auxiliary books accounts represents the initial balance and turnover of the relevant ledger account.

III. Accounts of auxiliary books are carried out in particular for:

1. Fixed assets, intangible assets and depreciation charges made on them (amortization)
2. Settlements with contractors
3. Sales operation (sequentially numbered own invoices and other evidence)
4. Purchase operation (third party invoices)
5. Costs
6. Settlements with employees

IV. The basis of entries in the books are accounting evidence:

1. External third party - received originals from contractors (purchase invoices, correction)
2. External own – forwarded originals to contractors (purchase invoices, correction)
3. Internal - concerning operations inside the unit (originals of KP, KW, PZ, WZ, MMR, simple production outgoing and revenue documents, settlement of installment, order for accounting, statements - substitute evidence, delegation settlements, payroll, contracts of commission, free-for-task agreement, OT, physical inventory).

V. The substitute evidence may be used in documenting accounting records, confirming the making and settling of materials (goods and services).
The substitute evidence should include:

- Place and date when the evidence was issued;
- The date of the business transaction;
- Item, quantity, price and value of purchase;

- The name and signature of the person directly involved in the transaction (purchase of material, good, service);
- Identifying the person ordering the purchase and its purpose.

VI. The accounting evidence is subject to review by the CEO and is qualified to include it in the books.

VII. Inventory is carried out:
- Once a year for the last day of the financial year: cash deposited on bank accounts, receivables, loans, obligations, obtaining from banks and third parties confirmation of the balances shown;
- Once a year for the last day of the financial year: cash deposited in cashbox;
- Once every 4 years of fixed assets held by the Company.

6

Fixed assets with a value of over PLN 3.500 are entered into the Fixed Assets Register on the basis of the OT document at the purchase price or cost of production.
Basis for making depreciation of fixed assets and intangible assets, which purchase price exceeds PLN 3.500 is the current depreciation plan, applying the depreciation rates included in the annex to the Corporate Income Tax Act of 15.02.1992. The initial value of fixed assets and intangible assets, that will not be included in the asset component according to the subsequent updates of the Act, may increase.
Amortization is made after a fixed asset or an intangible asset is accepted for use. No residual value (net selling price predicted on liquidation) is taken into account when setting the depreciation rate.
Rates and depreciation periods are reviewed at least every 4 years.
Erca Wilmar Cosmetic Ingredients uses linear depreciation.
Fixed assets and intangible assets with a low initial value to PLN 1000 directly charge operating costs and they are not shown in Fixed asset records. However, in the case of individual fixed assets, the management may decide to show in the Register of fixed assets and one-off redemption in the month when allowed to use.
Fixed assets and intangible assets with an initial value from PLN 1000-3,500 are generally subject to amortization in a simplified manner and are written off on a one-off basis (according to the principle of relevance) in the month of commissioning or next. However, the management may decide about installment depreciation of fixed assets valued less than PLN 3,500.
This amount may be increased as a result of subsequent updates of the Act.
Purchases of office supplies and small equipment are charged directly to operating costs.
There is no record of purchase of office consumables.

7

As for material turnover assets, valuable records are kept on the auxiliary accounts as well as quantitative records in the warehouse system, and both records are compared at the balance sheet date. Inventories of tangible current assets are carried out at least once a year at the balance sheet date. Current assets during the financial year are included in the books as follows:

-	Materials, goods at purchase price
-	Finished goods according to planned production costs.

The expenditure of all current assets is made using the FIFO method.
At the balance sheet date valuation of current assets is made, the production in progress is not valuated.
The valuation of finished goods is to show them with actual cost of production, and incompatible with cost of raw materials.
Write-offs for permanent loss of value of the components of current assets are included in production costs of products sold.

8

Investments are included in the books at the date of their acquisition or development at cost of purchase. The FIFO method is used for valuation. Long-term and short-term investments are valued at market value. As the investment in the form of financial assets, the criterion of division into short and long term financial assets, is assumed that short term financial assets are those which are payable and due or intended to be disposed of within 12 months of the date of establishment, issue or purchase.

9

In terms of receivables, it is assumed as a principle not to charge interest on late payments. Interest may be charged in case of a special interest of the company. As of the balance sheet date, revaluation write-offs on receivables from debtors subjected to liquidation or bankruptcy are made.

10

The profit and loss account at the balance sheet date is presented in a calculation option.

11

The cash flow statement is prepared using the indirect method. Financial assets payable or due within 3 months of their issue, acquisition or established are shown as funds.

12

There is no need for a reserve for employee benefits. There is no need for a reserve for unused holidays, because holidays do not affect production and administration employees. Moreover, there is no need to create this reserve, as the postponement of holidays between years is repetitive in each financial year and at the same time, the costs associated with unused holidays are similar year by year. The company also has no obligation to set up reserve for retirement provisions and jubilee bonuses, because this does not have a negative effect on fair and clear presentation of the property and financial position, and financial result. Due to the materiality criterion, there is no obligation to make a reserve, for example, for cash severance payments of one month's salary, for employees who are going to retire or disability pension (art.92, ust 1 Labor Code).