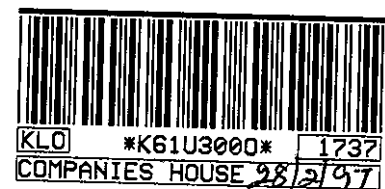


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MARY KAY COSMETICS (UK) LIMITED
DIRECTORS' REPORT AND ACCOUNTS
31 DECEMBER 1995



MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1995

The Directors submit their report and the financial statements of the Company for the year ended 31 December 1995.

REGISTERED NUMBER

The Company's registered number is 2767620.

RESULTS AND DIVIDENDS

The Company made a profit of £119,333 for the year to 31 December 1995 (1994: profit of £1,089,550) and this amount has been transferred to reserves. The directors are unable to recommend the payment of a dividend.

PRINCIPAL ACTIVITIES

The Company offers a range of high quality skin care and cosmetics products through its salesforce of independent Beauty Consultants in the United Kingdom. It also supports the development of Mary Kay companies in Continental Europe.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company increased its salesforce of independent Beauty Consultants to total just short of 1,500 by year end. This measure of performance is key in sustaining long term growth and demonstrates that the Company's products and compensation plan have been well accepted in the UK.

Sales have increased in line with the growth in the number of Consultants. However, fixed expenses are a relatively constant element and can thus be expected to represent a declining proportion of sales as the Company grows.

Overall performance is consistent with the expectations of the Company's US parent company and that of the growth pattern of other international subsidiaries. The Company can be expected to achieve profitability in the medium term.

FIXED ASSETS

Additions to fixed assets during the year are disclosed in note 6.

CHARITABLE DONATIONS

Charitable donations of £500 were made during the year.

MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

DIRECTORS

The Directors of the Company during the year were:

RB Glendening (resigned 1 December 1995)
RL Smith
RB Clark (Chairman)
TM Byrd
G Rubio
EA Cameron
S O'Connell Cooper (appointed 1 December 1995)

None of the Directors have any interest in shares in the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act 1985 requires the Directors to prepare for each financial period financial statements which give a true and fair view of the state of affairs of the Company at the end of that period, and of the profit or loss for the period to that date. In preparing the financial statements, the Directors are also required:

- a) to select suitable accounting policies and apply them consistently, supported as appropriate by reasonable and prudent judgements and estimates;
- b) to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- c) to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The Directors consider that they have complied fully with the above requirements in preparing the financial statements on pages 5 to 14.

The Directors also have responsibility for:

- a) keeping appropriate accounting records which disclose with reasonable accuracy the financial position of the Company at any time;
- b) taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

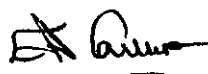
MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

AUDITORS

A resolution concerning the re-appointment of Price Waterhouse as the Company's auditors and the fixing of their remuneration will be submitted at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'EA Cameron', with a horizontal line underneath.

EA Cameron
27 February 1997

Price Waterhouse



**AUDITORS' REPORT TO THE MEMBERS OF
MARY KAY COSMETICS (UK) LIMITED**

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of Directors and Auditors

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1995 and of its profit and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants
and Registered Auditors

27 February 1997

MARY KAY COSMETICS (UK) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1995

	Notes	<u>1995</u> £	<u>1994</u> £
TURNOVER	1(b)	1,488,434	784,971
Cost of sales		(1,001,507)	(404,275)
		<hr/>	<hr/>
GROSS PROFIT		486,927	380,696
Administrative expenses		(1,640,371)	(1,718,717)
Distribution costs		(86,385)	(65,714)
Other operating income		<u>1,437,660</u>	<u>2,677,958</u>
OPERATING PROFIT		197,831	1,274,223
Interest receivable and similar income	4	11,185	4,983
Interest payable	4	(89,683)	(189,656)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	119,333	1,089,550
Taxation		-	-
		<hr/>	<hr/>
PROFIT FOR THE YEAR AFTER TAXATION		119,333	1,089,550
PROFIT AND LOSS ACCOUNT BROUGHT FORWARD		(558,452)	(1,648,002)
		<hr/>	<hr/>
PROFIT AND LOSS ACCOUNT CARRIED FORWARD		(439,119)	(558,452)
		<hr/> <hr/>	<hr/> <hr/>

Turnover is derived from continuing activities

The Company has no recognised gains or losses other than as disclosed in the profit and loss account.

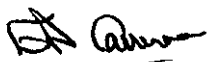
The notes on pages 8 to 14 form part of these accounts.

MARY KAY COSMETICS (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1995

	Notes	<u>1995</u>	<u>1994</u>
		£	£
FIXED ASSETS			
Tangible assets	6	324,328	187,923
CURRENT ASSETS			
Stocks	7	16,480	5,909
Debtors	8	1,660,513	491,677
Cash at bank and in hand		<u>185,799</u>	<u>35,133</u>
		1,862,792	532,719
CREDITORS : Amounts falling due within one year	9	<u>(2,526,239)</u>	<u>(1,179,094)</u>
NET CURRENT LIABILITIES		(663,447)	(646,375)
TOTAL ASSETS LESS CURRENT LIABILITIES		(339,119)	(458,452)
Represented by:			
SHARE CAPITAL	10	100,000	100,000
PROFIT AND LOSS ACCOUNT		<u>(439,119)</u>	<u>(558,452)</u>
SHAREHOLDERS' FUNDS	11	<u>(339,119)</u>	<u>(458,452)</u>

Approved by the Board on 27 February 1997



EA Cameron (Director)

The notes on pages 8 to 14 form part of these accounts.

MARY KAY COSMETICS (UK) LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1995

	Notes	<u>1995</u>	<u>1994</u>
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	456,805	92,665
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		6,611	4,983
Interest paid		-	-
		<u>6,611</u>	<u>4,983</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		6,611	4,983
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		<u>(290,930)</u>	<u>(69,671)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(290,930)</u>	<u>(69,671)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		172,486	27,977
FINANCING		-	-
INCREASE IN CASH AND CASH EQUIVALENTS	13	<u>172,486</u>	<u>27,977</u>

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995

1 ACCOUNTING POLICIES

(a) Accounting Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts have been prepared on the presumption that the Company will continue to operate as a going concern and that May Kay Cosmetics, Inc will continue to support the activities of the Company in the foreseeable future.

(b) Turnover

Turnover represents sales within the UK to beauty consultants, exclusive of VAT.

(c) Tangible assets and depreciation

Tangible assets are stated at cost to the Company. Depreciation is calculated on a straight line basis so as to write off the cost of the various assets over their expected useful lives. The annual rates of depreciation are as follows:

Computer equipment	25%
Motor vehicles	25%
Fixtures and fittings	25%

(d) Stocks

Stocks are stated at the lower of cost and net realisable value.

(e) Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial period except for fixed assets and stocks which are translated at the rates of exchange ruling when the assets were acquired. All exchange gains and losses are credited or charged to the profit and loss account.

(f) Operating lease costs

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

(g) Pension costs

The Company operates a money purchase pension scheme for employees. Company contributions are charged to the profit and loss account in the period to which they relate.

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1995</u> £	<u>1994</u> £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	16,200	13,000
Depreciation	138,800	60,331
Operating lease costs (land and buildings)	90,000	90,000
Exchange loss/(gain)	119,359	(115,836)
Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs)	(1,331,711)	(1,907,120)
Other operating income comprises:	<u> </u>	<u> </u>
Management fees from parent undertaking and fellow subsidiary undertakings	(1,437,660)	(1,241,078)
Reimbursement of prior year market development costs from parent undertaking	-	(1,436,880)
	<u>(1,437,660)</u>	<u>(2,677,958)</u>

3 STAFF COSTS

	<u>1995</u> £	<u>1994</u> £
Wages and salaries	1,051,529	1,084,404
Social security costs	92,390	86,236
Other pension costs	<u>16,471</u>	<u>10,480</u>
	<u>1,160,390</u>	<u>1,181,120</u>

The average number of employees during the year (including directors) was 26 (1994: 20).

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

4 INTEREST RECEIVABLE AND PAYABLE

	<u>1995</u> £	<u>1994</u> £
Bank interest receivable	6,611	4,983
Intercompany interest receivable	<u>4,574</u>	<u>-</u>
	<u>11,185</u>	<u>4,983</u>
Intercompany interest on amounts owed to parent undertaking	<u>89,683</u>	<u>189,656</u>

5 DIRECTORS EMOLUMENTS

	<u>1995</u> £	<u>1994</u> £
Total Directors' remuneration (including pension scheme contributions)	303,506	857,495
Details of Directors' emoluments (excluding pension scheme contributions) are as follows:		
Highest paid director	165,625	464,570
Chairman	-	464,570
Directors emoluments fell within the following ranges:		
	<u>Number</u>	<u>Number</u>
£0 - £5,000	5	3
£110,001 - £115,000	-	1
£120,001 - £125,000	1	-
£165,001 - £170,000	1	-
£270,001 - £275,000	-	1
£460,001 - £465,000	-	1

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

6 TANGIBLE ASSETS

	Short leasehold <u>improvements</u>	Motor <u>vehicles</u>	Fixtures, fittings & <u>equipment</u>	<u>Total</u>
	£	£	£	£
Cost				
At 1 January 1995	62,381	123,714	97,792	283,887
Additions	108,861	20,753	161,316	290,930
Disposals	(6,400)	-	(15,246)	(21,646)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1995	164,842	144,467	243,862	553,171
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accumulated Depreciation				
At 1 January 1995	5,432	58,708	31,824	95,964
Charge for the year	40,332	33,702	64,766	138,800
Disposals	(800)	-	(5,121)	(5,921)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1995	44,964	92,410	91,469	228,843
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Book Value				
At 31 December 1995	119,878	52,057	152,393	324,328
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1994	56,949	65,006	65,968	187,923
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7 STOCKS

	<u>1995</u>	<u>1994</u>
	£	£
Goods for resale	16,480	5,909
	<u> </u>	<u> </u>

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

8 DEBTORS

	<u>1995</u> £	<u>1994</u> £
Trade debtors	7,124	2,274
Amounts owed by fellow subsidiary undertakings	1,485,168	243,697
Other debtors	102,698	128,672
Prepayments	<u>65,523</u>	<u>117,034</u>
	<u>1,660,513</u>	<u>491,677</u>

Included within "other debtors" is an amount of £75,000 (1994 : £75,000) which is due after more than one year.

9 CREDITORS : Amounts falling due within one year

	<u>1995</u> £	<u>1994</u> £
Bank overdraft	39,945	61,765
Trade creditors	87,030	48,215
Amounts owed to parent undertaking	767,018	323,088
Amounts owed to fellow subsidiary undertakings	1,267,249	470,356
Other creditors	168,081	115,413
Taxation and social security	30,400	37,653
Accruals and deferred income	<u>166,516</u>	<u>122,604</u>
	<u>2,526,239</u>	<u>1,179,094</u>

10 SHARE CAPITAL

	<u>1995</u> £	<u>1994</u> £
Authorised :		
500,000 ordinary £1 shares	500,000	500,000
Issued :		
100,000 ordinary £1 shares	100,000	100,000

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1995</u> £	<u>1994</u> £
Profit for the period	119,333	1,089,550
	<hr/>	<hr/>
Net increase in shareholders' funds	119,333	1,089,550
Opening shareholders' funds	<u>(458,452)</u>	<u>(1,548,002)</u>
Closing shareholders' funds	(339,119)	(458,452)
	<hr/>	<hr/>

12 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1995</u> £	<u>1994</u> £
Operating profit	197,831	1,274,223
Depreciation	138,800	60,331
Increase in stocks	(10,571)	(1,516)
Increase in debtors	(1,168,836)	(301,395)
Increase/(decrease) in creditors	<u>1,299,581</u>	<u>(938,978)</u>
Net cash inflow from operating activities	<hr/> 456,805 <hr/>	<hr/> 92,665 <hr/>

13 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE PERIOD

	<u>1995</u> £	<u>1994</u> £
Balance at 1 January 1995	(26,632)	(54,609)
Net cash inflow	<u>172,486</u>	<u>27,977</u>
Balance at 31 December 1995 (note 14)	<hr/> 145,854 <hr/>	<hr/> (26,632) <hr/>

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

14 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	<u>1995</u> £	<u>1994</u> £
Cash at bank and in hand	185,799	35,133
Bank overdraft	<u>(39,945)</u>	<u>(61,765)</u>
	145,854	(26,632)
	<u>=====</u>	<u>=====</u>

15 OPERATING LEASE COMMITMENTS

Annual commitments in respect of operating leases are as follows:

	<u>1995</u> £	<u>1994</u> £
Land and buildings which expire:		
Between two and five years	<u>100,000</u>	<u>100,000</u>

16 ULTIMATE PARENT

The Company is a wholly owned subsidiary of Mary Kay Cosmetics, Inc, a company incorporated in the United States of America. The ultimate parent company is Mary Kay Corporation, also incorporated in the United States of America. Mary Kay Cosmetics, Inc has confirmed that it intends to provide sufficient funds, either directly or indirectly, to enable the company to discharge its obligations as they fall due.