

Mary Kay Cosmetics (UK) Limited
(Registered Number 2767620)

Directors' Report and Financial Statements

31 December 1997



Mary Kay Cosmetics (UK) Limited

Directors' Report For The Year Ended 31 December 1997

The directors submit their report and the financial statements of the Company for the year ended 31 December 1997.

Results And Dividends

The Company made a loss of £262,727 for the year to 31 December 1997 (1996: profit of £337,408) 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 continued to grow its sales in 1997 although some consolidation in salesforce numbers was experienced. Administrative expenses increased during the year principally as a result of the absence of exchange gains together with increased property and dilapidation costs.

Implementation of a new software system took place on 1 October 1997, this will permit improved control over the business, in particularly financial statements receivable, as well as ensuring Year 2000 compliance. A review of computing hardware has determined any potential weaknesses all of which have either been resolved or will be so as part of normal hardware upgrades before the Year 2000.

The move to new offices in early 1998 has achieved cost economies as well as creating an effective infrastructure for future growth.

Charitable Donations

Charitable donations of £685 were made during the year (1996: £300).

Directors

The Directors of the Company during the year were:

RL Smith	(Resigned 29 December 1997)
RB Clark	(Resigned 29 December 1997)
TM Byrd	(Resigned 29 December 1997)
G Rubio	(Resigned 29 December 1997)
EA Cameron	(Resigned 25 September 1998)
S O'Connell Cooper	(Resigned 30 June 1998)
Timothy Wentworth	(Appointed 29 December 1997)
David Holl	(Appointed 29 December 1997)

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

Mary Kay Cosmetics (UK) Limited

Directors' Report For The Year Ended 31 December 1997 (Continued)

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 4 to 13.

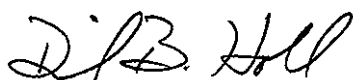
The Directors also have responsibility for:

- 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.

Auditors

Our auditors, Price Waterhouse have merged with Coopers & Lybrand on 1 July and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the annual general meeting.

By Order of the Board



D B Holl

14 December 1998

Date

Price Waterhouse



Auditors' Report to the Members Of Mary Kay Cosmetics (UK) Limited

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective Responsibility 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 1997 and of its loss and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

14 December 1998

Price Waterhouse
Chartered Accountants
and Registered Auditors

Mary Kay Cosmetics (UK) Limited

Profit And Loss Account For The Year Ended 31 December 1997

	<i>Note</i>	1997 £	1996 £
Turnover	1 (b)	3,169,470	3,149,129
Cost of sales		(1,939,718)	(2,116,514)
Gross profit		1,229,752	1,032,615
Administrative expenses		(2,456,293)	(1,785,004)
Distribution costs		(72,389)	(66,157)
Other operating income	2	1,443,599	1,552,684
Operating profit		144,669	734,138
Interest receivable and similar income	4	13,243	11,374
Interest payable	4	(266,517)	(258,255)
(Loss)/Profit on ordinary activities before taxation	2	(108,605)	487,257
Taxation	5	(154,122)	(149,849)
(Loss)/Profit For The Year After Taxation		(262,727)	337,408
Profit And Loss Account Brought Forward		(101,711)	(439,119)
Profit And Loss Account Carried Forward		(364,438)	(101,711)

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 7 to 13 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Balance Sheet As At 31 December 1997

		1997	1996
	Note	£	£
Fixed Assets			
Tangible assets	7	108,601	189,546
Current Assets			
Stocks	8	710,959	734,715
Debtors	9	2,977,671	2,581,178
Cash at bank and in hand		251,639	160,885
		3,940,269	3,476,778
Creditors - Amounts Falling Due Within One Year	10	(4,313,308)	(3,668,035)
Net Current Liabilities		(373,039)	(191,257)
Total Assets Less Current Liabilities		(264,438)	(1,711)
Represented by:			
Share Capital	11	100,000	100,000
Profit And Loss Account		(364,438)	(101,711)
Shareholders' Funds	12	(264,438)	(1,711)

Approved By The Board On 14 December 1998


Director

The notes on pages 7 to 13 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Cash Flow Statement

		1997	1996
	Note	£	£
Cash inflow/(outflow) from Operating Activities	13	246,347	(55,720)
Interest received		13,243	11,374
Returns on investments and servicing of finance		13,243	11,374
Tax paid		(44,417)	-
Purchase of tangible fixed assets		(68,012)	(48,571)
Sale of tangible fixed assets		12,500	27,177
Capital expenditure		(55,512)	(21,394)
Increase/(decrease) in cash	14	159,661	(65,740)

The notes on pages 7 to 13 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Notes To The Financial statements - 31 December 1997

1 Accounting Policies

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The financial statements have been prepared on the presumption that the Company will continue to operate as a going concern and that Mary Kay 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:

Leasehold improvements	Life of lease
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 Financial statements - 31 December 1997

2 (Loss)/Profit On Ordinary Activities Before Taxation

	1997 £	1996 £
(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	14,500	14,500
Depreciation	131,665	165,078
Operating lease costs (land and buildings)	129,062	90,000
Exchange loss/(gain)	16,958	(320,591)
Profit on disposal of Fixed Asset	208	-
Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs)	(556,769)	(597,625)
Other operating income comprises:		
Management fees from parent undertaking and fellow subsidiary undertakings	(1,443,599)	(1,552,684)

3 Employee Costs

	1997 £	1996 £
Wages and salaries	946,614	1,021,529
Social security costs	92,615	88,319
Other pension costs	27,168	20,484
	1,066,397	1,130,332

The average number of employees during the year (including directors) was 25 (1996: 23).

Mary Kay Cosmetics (UK) Limited

Notes To The Financial statements - 31 December 1997

4 Interest Receivable And Payable

	1997 £	1996 £
Bank interest receivable	13,243	11,374
Intercompany interest on amounts owed to parent undertaking	266,517	258,255

5 Taxation

	1997 £	1996 £
UK Corporation tax at 31% and 33%	109,705	-
Prior year adjustments		
- Overseas withholding tax	-	149,849
- Corporation tax	44,417	-
	154,122	149,849

6 Directors Emoluments

	1997 £	1996 £
Total Directors' remuneration (excluding pension scheme contributions)	213,218	350,190
Highest paid director:		
emoluments (excluding pension scheme contributions)	136,077	193,267
pension scheme contributions	3,733	4,600

Two Directors have retirement benefits accruing under money purchase pension schemes (1996:2)

Mary Kay Cosmetics (UK) Limited

Notes To The Financial statements - 31 December 1997

7 Tangible Assets

	Short- leasehold improvements £	Motor vehicles £	Fixtures, fittings & equipment £	Total £
Cost				
At 1 January 1997	168,564	46,794	285,080	500,438
Additions	3,950	-	59,062	63,012
Disposals	-	(24,384)	-	(24,384)
At 31 December 1997	172,514	22,410	344,142	539,066
Accumulated Depreciation				
At 1 January 1997	111,654	29,118	170,120	310,892
Charge for the year	45,918	5,384	80,363	131,665
Disposals	-	(12,092)	-	(12,092)
At 31 December 1997	157,572	22,410	250,483	430,465
Net Book Value				
At 31 December 1997	14,942	-	93,659	108,601
At 31 December 1996	56,910	17,676	114,960	189,546

8 Stocks

	1997 £	1996 £
Goods for resale	710,959	734,715

Mary Kay Cosmetics (UK) Limited

Notes To The Financial statements - 31 December 1997

9 Debtors

	1997 £	1996 £
Trade debtors	101,479	56,073
Amounts owed by fellow subsidiary undertakings	2,650,562	2,304,377
Other debtors	130,842	108,752
Prepayments	94,788	111,976
	2,977,671	2,581,178

There are no debtors receivable after more than one year (1996 : £81,200)

10 Creditors: Amounts Falling Due Within One Year

	1997 £	1996 £
Bank overdraft	11,864	80,771
Trade creditors	129,040	130,779
Amounts owed to parent undertakings	822,638	644,732
Amounts owed to fellow subsidiary undertakings	2,687,449	2,290,379
Other creditors	147,486	130,327
Taxation and social security	109,705	142,592
Accruals and deferred income	405,126	248,455
	4,313,308	3,668,035

11 Share Capital

	1997 £	1996 £
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 Financial statements - 31 December 1997

12 Reconciliation Of Movements In Shareholders' Funds

	1997 £	1996 £
(Loss)/profit for the period	(262,727)	337,408
Net (decrease)/increase in Shareholders' funds	(262,727)	337,408
Opening Shareholders' funds	(1,711)	(339,119)
Closing Shareholders' funds	(264,438)	(1,711)

13 Reconciliation Of Operating Profit To Net Cash Inflow/(Outflow) From Operating Activities

	1997 £	1996 £
Operating profit	144,669	734,138
Depreciation	131,665	165,078
Profit on disposal of fixed assets	(208)	(8,902)
Decrease in stocks	23,756	(718,235)
Increase in debtors	(396,493)	(1,070,514)
Increase in creditors	342,958	842,715
Cash inflow/(outflow) from operating activities	246,347	(55,720)

14 Reconciliation of Net Cash Flow To Movement in Net Debt

	1997 £
Increase in cash	159,661
Net debt at 1 January 1997	80,114
Net debt at 31 December 1997 (Note 15)	239,775

Mary Kay Cosmetics (UK) Limited

Notes To The Financial statements - 31 December 1997

15 Analysis Of Net Debt

	1 January 1997 £	Cashflow £	31 December 1997 £
Cash at bank	160,885	90,754	251,639
Bank overdraft	(80,771)	68,907	(11,864)
	80,114	159,661	239,775

16 Operating Lease Commitments

Annual commitments in respect of operating leases are as follows:

	1997 £	1996 £
Land and buildings which expire:		
Between one and two years	45,700	125,000

17 Post Balance Sheet Events

On 6 April 1998 the Company took on new premises with an annual rental of £100,000.

18 Ultimate Parent Company

The Company is a wholly owned subsidiary of Mary Kay Inc., a company incorporated in the United States of America. The ultimate parent company is Mary Kay Holding Corporation, also incorporated in the United States of America. Mary Kay 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.

Copies of the company's accounts can be obtained from the registered office at 77 South Audley Street, London, W1Y 5TA.

19 Related Party Transactions

The Company has not undertaken any transactions with related parties during the year other than transactions with fellow members of the Mary Kay Inc. group. Such transactions are exempt from disclosure under FRS8.