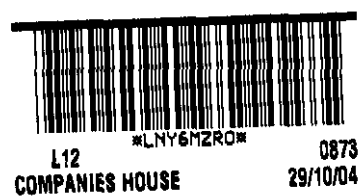


Mary Kay Cosmetics (UK) Limited
(Registered Number 2767620)

Directors' Report and Financial Statements

31 December 2003



Mary Kay Cosmetics (UK) Limited

Directors' Report for the Year Ended 31 December 2003

The directors submit their report and the financial statements of the Company for the year ended 31 December 2003.

Results and dividends

The Company made a loss of £138,201 for the year to 31 December 2003 (2002: loss of £183,668) and this amount has been transferred to reserves. The directors are unable to recommend the payment of a dividend (2002: Nil).

Principal activities

The Company offers a range of high quality facial 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

Turnover has remained consistent with the prior year following the continued emphasis on growing, developing and retaining the independent sales force rather than the primary focus for growth being product driven.

The directors are satisfied with the trading performance in the year and that the Company will continue to perform satisfactorily going forward.

Charitable donations

Charitable donations of £885 were made during the year (2002: £276).

Directors

The directors of the Company during the year were:

David Holl
R. Bradley Glendening (resigned 15th April 2003)
Terry Smith
Nathan Moore

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 2003 (Continued)

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 affairs of the company and of the profit or loss of the Company for the year. In preparing those statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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.

Appointment of Auditors

The Company has adopted an elective resolution dispensing with an annual general meeting and the appointment of auditors annually. Accordingly PricewaterhouseCoopers LLP will continue as auditors to the Company.

By Order of the Board



Terry Smith
Director

27 October 2004

Independent auditors' report to the members of Mary Kay Cosmetics (UK) Limited

We have audited the financial statements which comprise the profit and loss account, balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

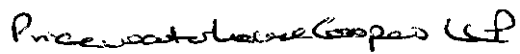
Basis of audit opinion

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 at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London.

27~~th~~ October 2004

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

Profit and Loss Account for the Year Ended 31 December 2003

| | <i>Note</i> | 2003 £ | 2002 £ |
|---------------------------------------------------------------|-------------|------------------|------------------|
| Turnover | 1 (b) | 3,415,932 | 3,455,181 |
| Cost of sales | | (1,999,322) | (2,412,883) |
| Gross profit | | 1,416,610 | 1,042,298 |
| Administrative expenses | | (1,919,608) | (1,911,185) |
| Distribution costs | | (134,317) | (146,289) |
| Other operating income | 2 | 732,642 | 990,871 |
| Operating profit | | 95,327 | (24,305) |
| Bank Interest receivable | | 9,587 | 15,055 |
| Interest payable on amounts owed to group undertakings | | (56,827) | (128,330) |
| Profit / (Loss) on ordinary activities before taxation | 2 | 48,087 | (137,580) |
| Taxation | 4 | (186,288) | (46,088) |
| (Loss) for the year after taxation | | (138,201) | (183,668) |
| Profit and loss account brought forward | | (792,924) | (609,256) |
| Profit and loss account carried forward | | (931,125) | (792,924) |

Turnover is derived from continuing activities.

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

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

The notes on pages 7 to 15 form part of these financial statements.


Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

Balance Sheet as at 31 December 2003

| | Note | £ | 2003 £ | 2002 £ |
|--------------------------------------------------------|------|-------------|-----------|-------------|
| Fixed assets | | | | |
| Tangible assets | 6 | | 100,254 | 197,550 |
| Current assets | | | | |
| Stocks | 7 | 447,863 | | 457,977 |
| Debtors | 8 | 3,965,696 | | 6,135,567 |
| Cash at bank and in hand | | 555,952 | | 647,623 |
| | | 4,969,511 | | 7,241,167 |
| Creditors - amounts falling due within one year | 9 | (5,266,133) | | (7,985,311) |
| Net current liabilities | | | (296,622) | (744,144) |
| Total assets less current liabilities | | | (196,368) | (546,594) |
| Provision for liabilities and charges | | | (634,757) | (146,330) |
| Net liabilities | 10 | | (831,125) | (692,924) |
| <hr/> | | | | |
| Represented by: | | | | |
| Share capital | 11 | | 100,000 | 100,000 |
| Profit and loss account | 12 | | (931,125) | (792,924) |
| Shareholders' funds | 13 | | (831,125) | (692,924) |

Approved by the Board on 27 October 2004


 Terry Smith
 Director

The notes on pages 7 to 15 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

1 Accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The directors have reviewed the Company's existing accounting policies and consider that they are consistent with the requirements of Financial Reporting Standard 18 "Accounting Policies". 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.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

(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.

(h) Deferred tax

Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax is recognised on an undiscounted basis.

(i) Cash flow statement

The Company is a wholly owned subsidiary of Mary Kay Inc. The cash flows for the Company are included within the group cash flow of Mary Kay Inc and consequently the Company is exempt under Financial Reporting Standard 1 (Revised) from preparing a cash flow statement.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

2 Profit / (loss) on ordinary activities before taxation

| | 2003 £ | 2002 £ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Profit / (Loss) on ordinary activities before taxation is stated after charging/(crediting): | | |
| Auditors' remuneration - audit services | 31,873 | 33,100 |
| - other | 53,783 | 61,662 |
| Depreciation | 107,133 | 166,343 |
| Operating lease costs - land and buildings | 376,500 | 364,148 |
| - vehicles | 133,224 | 115,631 |
| Exchange gain | (381,711) | (684,581) |
| (Gain) / loss on disposal of fixed assets | (6,237) | 90,923 |
| Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs) | (770,554) | (527,452) |
| Other operating income comprises: | | |
| Rental income | (68,951) | (158,200) |
| Exceptional income – VAT refund | - | - |
| Net consulting services fees from parent and fellow subsidiary undertakings | (663,691) | (832,671) |
| | (732,642) | (990,871) |

3 Employee costs

| | 2003 £ | 2002 £ |
|-----------------------|-----------|-----------|
| Wages and salaries | 822,280 | 803,992 |
| Social security costs | 67,832 | 91,177 |
| Other pension costs | 32,470 | 23,139 |
| | 922,582 | 918,308 |

The average number of employees during the year (including directors) was 22 (2002: 20). All employees are involved in administrative activities.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

4 Taxation

(a) Analysis of charge in the period

| | 2003 £ | 2002 £ |
|-----------------------------------------------|----------------|---------------|
| Current tax | | |
| - UK corporation tax on profits of the period | 37,622 | 32,038 |
| - Adjustments in respect of previous periods | 148,666 | 14,050 |
| Total current tax | 186,288 | 46,088 |

(b) Factors affecting tax charge for the period

The current tax charge for the period is higher (2002 : higher) than the standard rate of corporation tax in the UK of 30% (2002:30%). The differences are explained below:

| | 2003 £ | 2002 £ |
|------------------------------------------------------------------------|----------------|---------------|
| Profit / (Loss) on ordinary activities before tax | 48,087 | (137,580) |
| Tax charge thereon @ 30% | 14,426 | (41,274) |
| Effects of: | | |
| Qualifying depreciation in excess of capital allowances for the period | 5,113 | 43,998 |
| Short term timing differences | (16,815) | 1,466 |
| Expenses not allowable for tax purposes | 24,360 | 27,848 |
| Imputed taxable income | 10,538 | - |
| Prior year adjustments | 148,666 | 14,050 |
| Total current tax charge | 186,288 | 46,088 |

(c) Factors that may affect future tax charges

The unprovided amounts of deferred taxation for timing differences are as follows:

| | 2003 £ | 2002 £ |
|--------------------------------------------------------|---------------|----------------|
| Accelerated capital allowances | 77,171 | 84,508 |
| Disallowed interest which may be recoverable in future | 17,652 | 34,467 |
| Deferred tax asset | 94,823 | 118,975 |

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

5 Directors emoluments

| | 2003 £ | 2002 £ |
|---------------------------------------------------------------|-----------|-----------|
| Aggregate emoluments (excluding pension scheme contributions) | 18,114 | 120,708 |
| Compensation for loss of office | - | 861,348 |

The company and its parent undertaking received a refund of tax paid on behalf of a director relating to their remuneration in the 2002/03 tax income year. The total refund received was £60,680.

None of the directors have retirement benefits accruing under money purchase pension schemes. (2002: None).

6 Fixed Assets

| | Short leasehold improvements £ | Fixtures, Fittings & Equipment £ | Total £ |
|---------------------------------|-----------------------------------------|-------------------------------------------|------------|
| Cost | | | |
| At 1 January 2003 | 234,400 | 261,950 | 496,350 |
| Additions | - | 9,837 | 9,837 |
| At 31 December 2003 | 234,400 | 271,787 | 506,187 |
| Accumulated depreciation | | | |
| At 1 January 2003 | 132,988 | 165,812 | 298,800 |
| Charge for the year | 58,600 | 48,533 | 107,133 |
| At 31 December 2003 | 191,588 | 214,345 | 405,933 |
| Net book value | | | |
| At 31 December 2003 | 42,812 | 57,442 | 100,254 |
| At 31 December 2002 | 101,412 | 96,138 | 197,550 |

7 Stocks

| | 2003 £ | 2002 £ |
|------------------|-----------|-----------|
| Goods for resale | 447,863 | 457,977 |

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

8 Debtors

| | 2003 £ | 2002 £ |
|------------------------------------------------|------------------|------------------|
| Trade debtors | 26,187 | 155,994 |
| Amounts owed by parent undertakings | - | - |
| Amounts owed by fellow subsidiary undertakings | 3,449,721 | 5,392,104 |
| Other debtors | 324,542 | 374,437 |
| Prepayments | 165,246 | 213,032 |
| | 3,965,696 | 6,135,567 |

9 Creditors: amounts falling due within one year

| | 2003 £ | 2002 £ |
|------------------------------------------------|------------------|------------------|
| Bank overdraft | 8,619 | 7,530 |
| Trade creditors | 103,057 | 169,872 |
| Amounts owed to parent undertakings | 1,446,021 | 2,526,669 |
| Amounts owed to fellow subsidiary undertakings | 2,876,867 | 3,952,169 |
| Other creditors | 199,187 | 180,226 |
| Taxation and social security | 40,807 | 21,388 |
| Accruals and deferred income | 591,575 | 1,127,457 |
| | 5,266,133 | 7,985,311 |

10 Provision for liabilities and charges

| | Onerous Lease £ |
|------------------------------------|--------------------|
| At January 2003 | 146,330 |
| Charged to profit and loss account | 562,927 |
| Utilised in the year | (74,500) |
| At 31 December 2003 | 634,757 |

The onerous lease provision arises on a property lease where the subtenant declined to renew their lease during the year. The provision reflects management's best estimate of the onerous element of expenditures required to settle the present value of the lease obligations at the balance sheet date and amounts are expected to be paid out over the remaining five year period of the lease.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

11 Share capital

| | 2003 £ | 2002 £ |
|----------------------------|-----------|-----------|
| Authorised: | | |
| 500,000 ordinary £1 shares | 500,000 | 500,000 |
| Issued: | | |
| 100,000 ordinary £1 shares | 100,000 | 100,000 |

12 Reserves

| | 2003 £ | 2002 £ |
|-------------------|-----------|-----------|
| Opening reserves | (792,924) | (609,256) |
| Loss for the year | (138,201) | (183,668) |
| Closing reserves | (931,125) | (792,924) |

13 Reconciliation of movements in shareholders' funds

| | 2003 £ | 2002 £ |
|-------------------------------------|-----------|-----------|
| Loss for the year | (138,201) | (183,668) |
| Net decrease in Shareholder's funds | (138,201) | (183,668) |
| Opening Shareholder's funds | (692,924) | (509,256) |
| Closing Shareholder's funds | (831,125) | (692,924) |

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

14 Operating lease commitments

Annual commitments in respect of operating leases are as follows:

| | Land and buildings | Vehicles | Total | Land and buildings | Vehicles | Total |
|----------------------------|-----------------------|---------------|----------------|-----------------------|---------------|----------------|
| | 2003 | 2003 | 2003 | 2002 | 2002 | 2002 |
| | £ | £ | £ | £ | £ | £ |
| Expiring: | | | | | | |
| within one year | - | 25,067 | 25,067 | - | 40,303 | 40,303 |
| between two and five years | 58,000 | 33,650 | 91,650 | 237,000 | 30,787 | 267,787 |
| in greater than five years | 328,300 | - | 328,300 | 149,300 | - | 149,300 |
| Total | 386,300 | 58,717 | 445,017 | 386,300 | 71,090 | 457,390 |

15 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.

16 Related party transactions

During the year, the Company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, the nature of these transactions and their total value is shown below:

| | 2003 £ | 2002 £ |
|-------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Product purchased from the manufacturer, Mary Kay Inc, for resale in the United Kingdom on normal trading terms | 756,776 | 253,336 |
| Product purchased from the manufacturer, Mary Kay Switzerland, for resale in the United Kingdom on normal trading terms | 101,306 | 572,115 |

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2003

16 Related party transactions (continued)

| | 2003 £ | 2002 £ |
|---------------------------------------------------------------------------------------------------------|-----------|-----------|
| Services provided to the Company, by Mary Kay Inc, the immediate holding company | 372,520 | 607,137 |
| Consulting services provided by the Company, recharged to Mary Kay Inc & fellow subsidiary undertakings | | |
| Mary Kay Cosmetics GmbH – Germany | 174,984 | 499,963 |
| A/O Mary Kay – Russia | 100,619 | 324,461 |
| Mary Kay (Kazakhstan) LLP | 87,615 | 114,224 |
| Mary Kay Europe B.V | - | 22,616 |
| Mary Kay Cosmetics de Espana S.A. | 126,931 | 103,231 |
| Mary Kay Europe B.V (Portugal) | 82,234 | 105,984 |
| Mary Kay Italia S.r.l | - | 6,323 |
| Mary Kay (Switzerland) | - | 61,237 |
| Mary Kay (Ukraine) Ltd | 94,326 | 89,802 |
| Mary Kay (Czech Republic) c.r.o | 74,555 | 30,136 |
| Mary Kay Cosmetic Poland SP.z.o.o | 89,668 | - |
| Mary Kay Inc | 205,278 | 81,834 |
| Intercompany interest relating to related party transactions | | |
| Mary Kay Inc | 40,476 | 87,120 |
| Fellow subsidiary undertakings | 16,351 | 41,210 |
| Reimbursement of costs related to the development of the Company's market, from Mary Kay Inc | 770,554 | 527,452 |
| Related party receivables at year end | | |
| Mary Kay Cosmetics GmbH – Germany | (5,130) | 780,238 |
| A/O Mary Kay – Russia | 100,619 | 324,461 |
| Mary Kay (Kazakhstan) LLP | 527,672 | 440,057 |
| Mary Kay Europe B.V | 1,331,061 | 1,331,061 |
| Mary Kay Cosmetics de Espana S.A. | 12,077 | 470,766 |
| Mary Kay Europe B.V (Portugal) | 246,266 | 487,351 |
| Mary Kay Italia S.r.l | 83,217 | 89,540 |
| Mary Kay (Switzerland) | - | 611,021 |
| Mary Kay (Ukraine) Ltd | 594,408 | 500,082 |
| Mary Kay (Czech Republic) S.R.O | 432,083 | 357,527 |
| Mary Kay Cosmetic Poland SP z.o.o | 89,668 | - |
| Related party payables at year end | | |
| Mary Kay Inc | 1,446,022 | 3,199,071 |
| Mary Kay Cosmetics GmbH – Germany | 727,943 | 923,676 |
| Mary Kay Cosmetics de Espana S.A | 124 | 1,246 |
| Mary Kay (Switzerland) | 2,087,316 | 2,335,277 |
| Tenderpower Inc | 23,705 | 19,568 |