

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

Directors' Report and Financial Statements

31 December 2005



Mary Kay Cosmetics (UK) Limited

Directors' Report for the Year Ended 31 December 2005

The directors submit their report and the financial statements of the Company for the year ended 31 December 2005.

Results and dividends

The Company made a profit of £27,927 for the year to 31 December 2005 (2004: loss of £26,314) and this amount has been transferred to reserves. The directors are unable to recommend the payment of a dividend (2004: Nil).

Principal activities

The Company offers a range of high quality facial skin care and cosmetics products through its sales force 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 grown steadily compared to 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

No charitable donations were made during the year (2004: £350).

Directors and directors' interests

The directors of the Company during the year were:

David Holl
Terry Smith
Nathan Moore

None of the directors have any disclosable interest in shares in the company or any other group undertaking.

Going concern

Mary Kay Inc. has indicated that it will continue to support the company financially for at least 12 months from the date of signing these financial statements. On this basis, the directors confirm that they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis in preparing the financial statements.

Mary Kay Cosmetics (UK) Limited

Directors' Report for the Year Ended 31 December 2005 (Continued)

Financial risk management

The Company is a wholly owned subsidiary of Mary Kay Inc. and sources its product from fellow group undertakings. The Company and its financial risks (including interest rate and currency risks) are managed as part of the overall Mary Kay Inc.'s group's activities. The Company seeks to minimise risks where appropriate, where not covered by Group policy.

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



David Holl
Director

20 October 2006

Mary Kay Cosmetics (UK) Limited

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

We have audited the financial statements of Mary Kay Cosmetics (UK) Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Mary Kay Cosmetics (UK) Limited

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

Basis of audit opinion

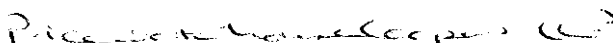
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit 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

20 October 2006

Mary Kay Cosmetics (UK) Limited

Profit and Loss Account for the Year Ended 31 December 2005

	<i>Note</i>	2005 £	2004 £
Turnover	1 (b)	5,052,021	3,980,299
Cost of sales		(2,540,830)	(2,330,939)
Gross profit		2,511,191	1,649,360
Administrative expenses		(2,636,651)	(2,149,358)
Distribution costs		(275,160)	(170,598)
Other operating income	2	567,809	709,851
Operating profit		167,189	39,255
Bank interest receivable		25,146	11,086
Interest payable	4	(158,069)	(88,146)
Profit / (loss) on ordinary activities before taxation	2	34,266	(37,805)
Taxation	5	(6,339)	11,491
Profit / (loss) for the year after taxation		27,927	(26,314)

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 loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

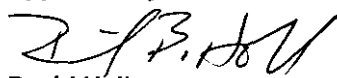
The notes on pages 9 to 19 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Balance Sheet as at 31 December 2005

	<i>Note</i>	£	2005 £	£	2004 £
Fixed assets					
Tangible assets	7		13,871		23,852
Current assets					
Stocks	8	324,714		355,024	
Debtors	9	3,782,144		4,967,207	
Cash at bank and in hand		1,493,763		809,305	
		5,600,621		6,131,536	
Creditors - amounts falling due within one year	10	(6,078,277)		(6,364,792)	
Net current liabilities			(477,656)		(233,256)
Total assets less current liabilities			(463,785)		(209,404)
Provision for liabilities and charges	11		(365,727)		(648,035)
Net liabilities			(829,512)		(857,439)
<hr/>					
Represented by:					
Share capital	12		100,000		100,000
Profit and loss account	13		(929,512)		(957,439)
Shareholders' funds	14		(829,512)		(857,439)

Approved by the Board on (date) 20 OCTOBER 2006


David Holl
Director

The notes on pages 9 to 19 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Cash Flow Statement for the Year Ended 31 December 2005

	2005 £	2004 £
Operating profit	167,189	39,255
Depreciation charges	13,544	82,437
Decrease in stocks	30,310	92,839
(Increase)/decrease in debtors	1,194,577	(1,000,352)
Increase/(decrease) in creditors	(652,094)	1,040,332
Net cash inflow/(outflow) from operating activities	<u>753,527</u>	<u>254,511</u>
Cash Flow Statement	£	£
Net cash inflow/(outflow) from operating activities	753,527	254,511
Returns on investments and servicing of finance (note 1)	(71,213)	11,086
Taxation	(15,854)	(12,489)
Capital expenditure	(3,563)	(6,035)
	<u>662,897</u>	<u>247,073</u>
Equity dividends paid	-	-
	<u>662,897</u>	<u>247,073</u>
Management of liquid resources (note 1)	-	-
Financing (note 1)	-	-
Increase/(decrease) in cash	<u>662,897</u>	<u>247,073</u>
Reconciliation of net cash flow to movement in net debt	£	£
(note 2)		
Increase/(decrease) in cash in the period	662,897	247,073
Change in net debt	<u>662,897</u>	<u>247,073</u>
Net debt at 1st January	794,406	547,333
Net funds at 31st December	<u>1,457,303</u>	<u>794,406</u>

Mary Kay Cosmetics (UK) Limited

Notes to the Cash Flow Statement

	2005 £	2004 £
Note 1 – Gross Cash Flows		
Returns on investments and servicing of finance		
Interest received	25,146	11,086
Interest paid	(96,359)	-
	<u>(71,213)</u>	<u>11,086</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(3,563)	(6,035)
	<u>(3,563)</u>	<u>(6,035)</u>

Note 2 - Analysis of Changes in Net Debt

	At 1 Jan 2005 £	Cash Flows £	Other Changes £	At 31 Dec 2005 £
Cash in hand, at bank	809,305	684,458	-	1,493,763
Overdrafts	(14,899)	(21,561)	-	(36,460)
	<u>794,406</u>	<u>662,897</u>	<u>-</u>	<u>1,457,303</u>

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

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".

Mary Kay Inc. has indicated that it will continue to support the company financially for at least 12 months from the date of signing these financial statements. On this basis, the directors confirm that they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis in preparing the financial statements.

(b) Turnover

Turnover represents sales within the UK to independent 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.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

1 Accounting policies (Continued)

(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.

(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.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

2 Profit/(Loss) on ordinary activities before taxation

	2005 £	2004 £
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration - audit services	40,100	34,399
- other	54,980	94,523
Depreciation	13,544	82,437
Operating lease costs - land and buildings	386,300	386,300
- vehicles	93,289	96,434
Exchange gain	(364,248)	(235,346)

Other operating income comprises:

Net consulting services fees from parent and fellow subsidiary undertakings	(567,809)	(709,851)
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Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

3 Employee costs

	2005	2004
	£	£
Wages and salaries	674,367	850,911
Social security costs	49,915	90,765
Other pension costs	20,547	28,205
	744,829	969,881

The average number of employees during the year (including directors) was 21 (2004: 24.5).
All employees are involved in administrative activities.

4 Interest Payable

	2005	2004
	£	£
Interest payable on intercompany balances	133,601	68,946
Other interest – unwind of discount on long term provision	19,883	19,200
Other interest	4,585	-
	158,069	88,146

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

5 Taxation

(a) Analysis of charge in the period

	2005	2004
	£	£
Current tax		
- UK corporation tax on profits of the period	30,056	16,435
- Adjustments in respect of previous periods	(23,717)	(27,926)
Total current tax	6,339	(11,491)

(b) Factors affecting tax charge for the period

The current tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005	2004
	£	£
Profit / (loss) on ordinary activities before tax	34,266	(37,805)
Tax charge thereon @ 30%	10,280	(11,342)
Effects of:		
Qualifying depreciation in excess of capital allowances for the period	(10,243)	5,411
Short term timing differences	-	-
Expenses not allowable for tax purposes	16,677	15,103
Imputed taxable income	13,342	7,263
Prior year adjustments	(23,717)	(27,926)
Total current tax charge	6,339	(11,491)

(c) Factors that may affect future tax charges

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

	2005	2004
	£	£
Accelerated capital allowances	38,757	50,804
Disallowed interest which may be recoverable in future	18,850	22,411
Deferred tax asset	57,607	73,215

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

6 Directors emoluments

	2005 £	2004 £
Aggregate emoluments (excluding pension scheme contributions)	-	26,595

All emoluments paid in prior year relate to payments of tax on behalf of a former director.

None of the directors have retirement benefits accruing under money purchase pension schemes. (2004: None).

7 Fixed Assets

	Short Leasehold Improvements £	Fixtures, Fittings & Equipment £	Total £
Cost			
At 1 January 2005	234,400	277,822	512,222
Additions	-	3,563	3,563
At 31 December 2005	234,400	281,385	515,785
Accumulated depreciation			
At 1 January 2005	234,400	253,970	488,370
Charge for the year	-	13,544	13,544
At 31 December 2005	234,400	267,514	501,914
Net book value			
At 31 December 2005	-	13,871	13,871
At 31 December 2004	-	23,852	23,852

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

8 Stocks

	2005 £	2004 £
Goods for resale	324,714	355,024

9 Debtors

	2005 £	2004 £
Trade debtors	32,221	16,206
Amounts owed by fellow subsidiary undertakings	3,141,274	4,033,629
Other debtors	374,601	699,329
Prepayments	234,048	218,043
	3,782,144	4,967,207

10 Creditors: amounts falling due within one year

	2005 £	2004 £
Bank overdraft	36,460	14,899
Trade creditors	116,012	118,112
Amounts owed to parent undertakings	1,300,216	2,541,291
Amounts owed to fellow subsidiary undertakings	4,064,530	2,911,204
Other creditors	209,964	200,705
Other taxation and social security	20,213	20,635
Accruals and deferred income	330,882	557,946
	6,078,277	6,364,792

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

11 Provision for liabilities and charges

	Onerous Lease £
At January 2005	648,035
Net released to profit and loss account	(39,425)
Utilised in the year	(242,883)
At 31 December 2005	365,727

The onerous lease provision arose on a property lease where the subtenant declined to renew their lease during 2003. A subtenant for part of the property was found in December 2005 until end of the lease in May 2009. 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 four year period of the lease.

12 Share capital

	2005 £	2004 £
Authorised:		
500,000 ordinary £1 shares	500,000	500,000
Issued:		
100,000 ordinary £1 shares	100,000	100,000

13 Reserves

	2005 £	2004 £
Opening reserves	(957,439)	(931,125)
Profit for the year	27,927	(26,314)
Closing reserves	(929,512)	(957,439)

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

14 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Profit for the year	27,927	(26,314)
Net decrease in Shareholder's funds	27,927	(26,314)
Opening Shareholder's funds	(857,439)	(831,125)
Closing Shareholder's funds	(829,512)	(857,439)

15 Operating lease commitments

Annual commitments in respect of operating leases are as follows:

	Land and buildings 2005 £	Vehicles 2005 £	Total 2005 £	Land and buildings 2004 £	Vehicles 2004 £	Total 2004 £
Expiring:						
within one year	-	26,700	22,724	-	16,376	16,376
between two and five years	386,300	38,081	418,710	58,000	46,848	104,848
in greater than five years	-	-	-	328,300	-	328,300
Total	386,300	64,781	441,434	386,300	63,224	449,524

16 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 Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

17 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:

	2005 £	2004 £
Product purchased from the manufacturer, Mary Kay Inc, for resale in the United Kingdom on normal trading terms	899,978	1,019,207
Consulting Services provided to the Company, by Mary Kay Inc & fellow subsidiary undertakings		
Mary Kay Inc	684,614	486,267
Mary Kay Worldwide Inc	253,612	-
Consulting services provided by the Company, recharged to Mary Kay Inc & fellow subsidiary undertakings		
Mary Kay Cosmetics GmbH	131,636	223,886
A/O Mary Kay ZAO	221,416	188,333
Mary Kay (Kazakhstan) LLP	138,121	118,932
Mary Kay Cosmetics de Espana S.A.	121,789	133,964
Mary Kay Cosmetics S.A, surcursal em Portugal (previously name - Mary Kay Europe B.V (Portugal))	155,259	102,684
Tov Mary Kay (Ukraine) Ltd	148,170	131,569
Mary Kay (Czech Republic) s.r.o	91,729	61,553
Mary Kay Cosmetic Poland SP.z.o.o	106,222	110,758
Mary Kay Inc	346,831	124,439
LLC "Mary Kay (Moldova) Limited"	44,861	-
Intercompany interest relating to related party transactions		
Mary Kay Inc	65,649	40,015
Fellow subsidiary undertakings	67,952	28,931

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements – 31 December 2005

17 Related party transactions (continued)

	2005 £	2004 £
Related party receivables at year end		
Mary Kay Cosmetics GmbH	37,742	76,797
A/O Mary Kay ZAO	221,415	54,293
Mary Kay (Kazakhstan) LLP	784,726	646,605
Mary Kay Europe B.V	-	1,331,061
Mary Kay Cosmetics de Espana S.A.	121,789	59,293
Mary Kay Cosmetics S.A, surcursal em Portugal	164,583	96,373
Mary Kay Italia S.r.l	-	83,217
Mary Kay (Ukraine) Ltd	874,147	725,977
Mary Kay (Czech Republic) S.R.O	585,364	493,636
Mary Kay Cosmetic Poland SP z.o.o.	306,647	200,425
LLC "Mary Kay (Moldova) Limited"	44,861	-
Related party payables at year end		
Mary Kay Inc	1,300,216	2,541,291
Mary Kay Worldwide Inc	1,198,280	-
Mary Kay Cosmetics GmbH	718,356	720,087
Mary Kay (Switzerland)	2,118,831	1,902,806
Tenderpower Inc	29,063	23,072