

2767620

**Mary Kay Cosmetics (UK)
Limited**

Report and Financial Statements

Year Ended

31 December 2007



BDO Stoy Hayward
Chartered Accountants

Mary Kay Cosmetics (UK) Limited

**Annual report and financial statements
for the year ended 31 December 2007**

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Directors

D Holl
T Smith
N Moore

Secretary and registered office

N Moore, Level 4, 28 Savile Row, London, W1S 2EU

Company number

2767620

Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU

Mary Kay Cosmetics (UK) Limited

Report of the directors for the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007

Results and dividends

The profit and loss account is set out on page 5 and shows the result for the year. The company made a loss of £112,760 (2006 - profit of £437,504) and this amount has been transferred to reserves.

The directors do not recommend the payment of a dividend (2006 - £Nil).

Principal activities, trading review and future developments

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.

Turnover is 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, however conditions in 2007 were not as favourable as in 2006 which had been impacted by a large foreign exchange gain.

Charitable donations

No charitable donations were made during the year (2006 - £Nil).

Directors

The directors of the company during the year were

D Holl
T Smith
N 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.

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. group activities. The company seeks to minimise risks where appropriate, where not covered by group policy.

Mary Kay Cosmetics (UK) Limited

Report of the directors for the year ended 31 December 2007 (*Continued*)

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- 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 to 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

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting.

This report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

On behalf of the Board

T Smith


Director

Date 27 OCT 2008

Mary Kay Cosmetics (UK) Limited

Report of the independent auditors

To the shareholders of Mary Kay Cosmetics (UK) Limited

We have audited the financial statements of Mary Kay Cosmetics (UK) Limited for the year ended 31 December 2007 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 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.

Mary Kay Cosmetics (UK) Limited

Report of the independent auditors (*Continued*)

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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*

London

Date *27 October 2008*

Mary Kay Cosmetics (UK) Limited

Profit and loss account for the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover	1	4,786,672	5,047,946
Cost of sales		(2,335,292)	(2,399,309)
Gross profit		2,451,380	2,648,637
Distribution costs		(215,301)	(260,409)
Administrative expenses		(2,283,570)	(1,707,263)
		(47,491)	680,965
Other operating income	4	119,977	47,012
Operating profit	4	72,486	727,977
Other interest receivable		25,678	37,691
Interest payable and similar charges	5	(174,557)	(135,465)
(Loss)/profit on ordinary activities before taxation		(76,393)	630,203
Taxation on (loss)/profit on ordinary activities	6	(36,367)	(192,699)
(Loss)/profit on ordinary activities after taxation		(112,760)	437,504

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

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

The notes on pages 8 to 17 form part of these financial statements

Mary Kay Cosmetics (UK) Limited

Balance sheet
at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Tangible assets	7		7,315		10,293
Current assets					
Stocks	8	335,841		314,687	
Debtors	9	2,352,327		2,942,991	
Cash at bank and in hand		873,185		826,723	
		<u>3,561,353</u>		<u>4,084,401</u>	
Creditors' amounts falling due within one year	10	<u>3,933,580</u>		<u>4,265,182</u>	
Net current liabilities			<u>(372,227)</u>		<u>(180,781)</u>
Total assets less current liabilities			<u>(364,912)</u>		<u>(170,488)</u>
Creditors' amounts falling due after more than one year	11		36,577		52,350
Provisions for liabilities	12		103,279		169,170
			<u>(504,768)</u>		<u>(392,008)</u>
Capital and reserves					
Called up share capital	13		100,000		100,000
Profit and loss account	14		(604,768)		(492,008)
Shareholders' deficit	15		<u>(504,768)</u>		<u>(392,008)</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

The financial statements were approved by the Board of Directors and authorised for issue on

27 OCT 2008


T Smith
Director

The notes on pages 8 to 17 form part of these financial statements

Mary Kay Cosmetics (UK) Limited

Cash flow statement for the year ended 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Net cash inflow/(outflow) from operating activities	19		208,486		(536,824)
Returns on investments and servicing of finance					
Interest received		25,678		37,691	
Interest paid		(13,562)		(155,152)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			12,116		(117,461)
Taxation			(193,733)		9,730
Capital expenditure					
Payments to acquire tangible fixed assets			(1,500)		(5,302)
Increase/(decrease) in cash	20,21		25,369		(649,857)

The notes on pages 8 to 17 form part of these financial statements

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements for the year ended 31 December 2007

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable 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.

The following principal accounting policies have been applied:

Turnover

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

Depreciation

Depreciation is provided on all tangible fixed assets to write off their cost over their expected useful lives. The annual rates of depreciation are as follows:

Leasehold improvements	-	Life of lease
Computer equipment	-	25% per annum
Fixtures and fittings	-	25% per annum

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief, and
- the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

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 forming part of the financial statements for the year ended 31 December 2007 (Continued)

1 Accounting policies (Continued)

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.

Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

Dilapidations

Where leases include a clause relating to dilapidation work which must be undertaken before a property is vacated, provision is made for the estimated costs of the dilapidation repairs, based on the current condition of the property.

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.

2 Employees

	2007 £	2006 £
Staff costs consist of		
Wages and salaries	640,818	598,042
Social security costs	66,546	63,061
Other pension costs	27,047	24,775
	<hr/>	<hr/>
	734,411	685,878
	<hr/>	<hr/>

The average number of employees during the year (including directors) was 18 (2006 - 18). All employees are involved in administrative activities.

3 Directors

No directors were paid through the company in the year (2006 - none).

None of the directors have retirement benefits accruing under money purchase pension schemes (2006 - none).

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

4 Operating profit

	2007 £	2006 £
This has been arrived at after charging/(crediting)		
Depreciation of tangible fixed assets	4,478	8,880
Hire of plant and machinery - operating leases	94,372	88,705
Hire of other assets - operating leases	405,000	408,923
Auditors' remuneration - audit services	27,065	30,000
Exchange loss/(gain)	37,643	(415,363)
	<u> </u>	<u> </u>
Other operating income comprises		
Subtenant rental income	(119,977)	(47,012)
	<u> </u>	<u> </u>

5 Interest payable

	2007 £	2006 £
Interest payable on intercompany balances	174,237	134,934
Other interest	320	531
	<u> </u>	<u> </u>
	174,557	135,465
	<u> </u>	<u> </u>

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

6 Taxation on profit on ordinary activities

	2007 £	2006 £
<i>Current tax</i>		
UK corporation tax on profits of the year	34,906	208,965
Adjustments in respect of previous years	1,461	(16,266)
	<hr/>	<hr/>
Total current tax	36,367	192,699
	<hr/>	<hr/>
The tax assessed for the year is lower than the standard rate of corporation tax in the UK The differences are explained below		
	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	(76,393)	630,203
	<hr/>	<hr/>
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 - 30%)	(22,918)	189,061
Effects of		
Qualifying depreciation in excess of capital allowances for the period	(7,114)	(8,582)
Expenses not allowable for tax purposes	31,006	11,567
Imputed taxable income	33,932	16,919
Prior year adjustments	1,461	(16,266)
	<hr/>	<hr/>
Current tax charge for year	36,367	192,699
	<hr/>	<hr/>

Factors that may affect future tax charges

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

	2007 £	2006 £
Accelerated capital allowances	20,800	30,294
	<hr/>	<hr/>
Deferred tax asset	20,800	30,294
	<hr/>	<hr/>

A deferred tax asset has not been recognised as utilisation is not expected within the foreseeable future

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

7 Tangible assets

	Short leasehold improvements £	Fixtures, fittings and equipment £	Total £
<i>Cost</i>			
At 1 January 2007	234,400	286,687	521,087
Additions	-	1,500	1,500
	<hr/>	<hr/>	<hr/>
At 31 December 2007	234,400	288,187	522,587
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 January 2007	234,400	276,394	510,794
Charge for the year	-	4,478	4,478
	<hr/>	<hr/>	<hr/>
At 31 December 2007	234,400	280,872	515,272
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2007	-	7,315	7,315
	<hr/>	<hr/>	<hr/>
At 31 December 2006	-	10,293	10,293
	<hr/>	<hr/>	<hr/>

8 Stocks

	2007 £	2006 £
Goods for resale	335,841	314,687
	<hr/>	<hr/>

9 Debtors

	2007 £	2006 £
Trade debtors	41,745	4,365
Amounts owed by fellow subsidiary undertakings	1,714,796	2,351,813
Other debtors	336,864	372,597
Prepayments	258,922	214,216
	<hr/>	<hr/>
	2,352,327	2,942,991
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year except amounts owed by fellow subsidiary undertakings of £1,651,002 (2006 - £1,651,002) (see note 18)

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

10 Creditors: amounts falling due within one year

	2007 £	2006 £
Bank overdraft	40,370	19,277
Trade creditors	91,858	103,493
Amounts owed to parent undertakings	2,367,856	2,196,797
Amounts owed to fellow subsidiary undertakings	869,589	1,248,214
Corporation tax	34,232	191,598
Other taxation and social security	299,446	273,612
Accruals and deferred income	230,229	232,191
	<u>3,933,580</u>	<u>4,265,182</u>

11 Creditors: amounts falling due after more than one year

	2007 £	2006 £
Sub-tenant rental deposits	<u>36,577</u>	<u>52,350</u>

12 Provisions for liabilities

	Onerous lease £
At 1 January 2007	169,170
Utilised in year	(65,891)
	<u>103,279</u>
Balance at 31 December 2007	

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 and a further subtenant for the remaining space was found in December 2006. Both subleases are until the 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 period of the lease.

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

13 Share capital

	2007 Number	Authorised 2006 Number	2007 £	2006 £
Ordinary shares of £1 each	500,000	500,000	500,000	500,000
	2007 Number	Issued 2006 Number	2007 £	2006 £
Ordinary shares of £1 each	100,000	100,000	100,000	100,000

14 Reserves

	Profit and loss account £
At 1 January 2007	(492,008)
Loss for the year	(112,760)
At 31 December 2007	(604,768)

15 Reconciliation of movements in shareholders' deficit

	2007 £	2006 £
(Loss)/profit for the year	(112,760)	437,504
Net (decrease)/increase in shareholder's deficit	(112,760)	437,504
Opening shareholder's deficit	(392,008)	(829,512)
Closing shareholder's deficit	(504,768)	(392,008)

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

16 Commitments under operating leases

As at 31 December 2007, the company had annual commitments under non-cancellable operating leases as set out below

	2007 Land and buildings £	2007 Other £	2006 Land and buildings £	2006 Other £
Operating leases which expire				
Within one year	-	65,245	33,833	19,873
In two to five years	408,500	23,944	343,500	66,355
	<u>408,500</u>	<u>89,189</u>	<u>377,333</u>	<u>86,228</u>

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

	2007 £	2006 £
Product purchased from the manufacturer, Mary Kay Inc, for resale in the United Kingdom on normal trading terms	<u>801,338</u>	<u>767,642</u>
Consulting services provided to the company by Mary Kay Inc and fellow subsidiary undertakings		
Mary Kay Inc	<u>162,782</u>	<u>104,952</u>
Consulting services provided by the Company recharged to Mary Kay Inc and fellow subsidiary undertakings		
Pink Rose Information System Services Limited	(45,600)	-
Mary Kay (Kazakhstan) LLP	<u>-</u>	<u>(4,876)</u>
Intercompany interest relating to related party transactions		
Mary Kay Inc	<u>118,822</u>	<u>32,992</u>
Fellow subsidiary undertakings	<u>55,415</u>	<u>101,942</u>

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

18 Related party transactions (Continued)

	2007 £	2006 £
Related party receivables at year end		
Mary Kay (Kazakhstan) LLP	-	646,605
Mary Kay Cosmetics SA, surcursal em Portugal*	164,584	164,583
Tov Mary Kay (Ukraine) Limited*	594,408	594,408
Mary Kay (Czech Republic) s r o *	585,364	585,364
Mary Kay Cosmetic Poland Sp z o o *	306,647	306,647
LLC "Mary Kay (Moldova) Limited"	-	44,861
Pink Rose Information System Services Limited	63,793	9,345

* Amounts fall due for payment in more than one year

Related party payables at year end

Mary Kay Inc	2,367,856	2,196,797
Mary Kay Worldwide Inc	-	467,242
Mary Kay Cosmetics GmbH	869,589	751,115
Tenderpower Inc	-	29,857

19 Reconciliation of operating profit to net cash (outflow) from operating activities

	2007 £	2006 £
Operating profit	72,486	727,977
Depreciation	4,478	8,880
(Increase)/decrease in stocks	(21,154)	10,027
Decrease in debtors	590,664	839,153
Decrease in creditors	(372,097)	(1,926,304)
Decrease in provisions	(65,891)	(196,557)
Net cash inflow/(outflow) from operating activities	208,486	(536,824)

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

20 Reconciliation of net cash flow to movement in net funds

	2007 £	2006 £
Increase/(decrease) in cash in the year	25,369	(649,857)
Change in net funds	25,369	(649,857)
Net funds at 1 January	807,446	1,457,303
Net funds at 31 December	832,815	807,446

21 Analysis of net funds

	At 1 January 2007 £	Cash flow £	At 31 December 2007 £
Cash in hand and at bank	826,723	46,462	873,185
Overdrafts	(19,277)	(21,093)	(40,370)
Total	807,446	25,369	832,815

22 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.