

Mary Kay Cosmetics (UK) Limited

Report and Financial Statements

Year Ended

31 December 2008

Company Number 2767620

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Mary Kay Cosmetics (UK) Limited

**Report and financial statements
for the year ended 31 December 2008**

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Directors

D Holl
T Smith
N Moore

Secretary and registered office

N Moore, 4th – 5th Floor, 28 Savile Row, London, W1S 2EU.

Company number

2767620

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU.

Mary Kay Cosmetics (UK) Limited

Report of the directors for the year ended 31 December 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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 £932,585 (2007 - £112,760) and this amount has been transferred to reserves.

The directors do not recommend the payment of a dividend (2007 - £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 has increased over prior year largely as a result of multiple new product introductions and packaging updates in the year. We continue to emphasise on growing, developing and retaining the independent sales force rather than growth being product driven.

The directors are satisfied with the trading performance in the year, however the global economic conditions in the latter part of 2008 severely impacted the company resulting in a large foreign exchange loss.

Charitable donations

Charitable donations were made during the year of £10,000 (2007 - £Nil).

Directors

The directors of the company during the year were:

D Holl
T Smith
N Moore

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 2008 (*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 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 21 October 2009

Mary Kay Cosmetics (UK) Limited

Independent auditor's report

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 2008 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

Independent auditor's report (*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 2008 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 LLP.

BDO LLP

*Chartered Accountants
and Registered Auditors*

London

United Kingdom

Date *21 October 2009*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Mary Kay Cosmetics (UK) Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £	2007 £
Turnover	1	5,321,613	4,786,672
Cost of sales		(2,678,909)	(2,335,292)
Gross profit		2,642,704	2,451,380
Distribution costs		(241,992)	(215,301)
Administrative expenses		(3,502,543)	(2,283,570)
		(1,101,831)	(47,491)
Other operating income	4	144,886	119,977
Operating (loss)/profit	4	(956,945)	72,486
Other interest receivable		27,181	25,678
Interest payable and similar charges	5	(94,426)	(174,557)
Loss on ordinary activities before taxation		(1,024,190)	(76,393)
Taxation on loss on ordinary activities	6	91,605	(36,367)
Loss on ordinary activities after taxation		(932,585)	(112,760)

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 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 2008

<i>Company number 2767620</i>	Note	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Tangible assets	7		25,116		7,315
Current assets					
Stocks	8	380,655		335,841	
Debtors	9	1,992,344		2,352,327	
Cash at bank and in hand		768,499		873,185	
		<u>3,141,498</u>		<u>3,561,353</u>	
Creditors: amounts falling due within one year	10	<u>4,583,854</u>		<u>3,933,580</u>	
Net current liabilities			<u>(1,442,356)</u>		<u>(372,227)</u>
Total assets less current liabilities			<u>(1,417,240)</u>		<u>(364,912)</u>
Creditors: amounts falling due after more than one year	11		-		36,577
Provisions for liabilities	12		20,113		103,279
			<u>(1,437,353)</u>		<u>(504,768)</u>
Capital and reserves					
Called up share capital	13		100,000		100,000
Profit and loss account	14		(1,537,353)		(604,768)
Shareholders' deficit	15		<u>(1,437,353)</u>		<u>(504,768)</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 21 October 2009



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 2008

	Note	2008 £	2008 £	2007 £	2007 £
Net cash inflow from operating activities	18		135,733		208,486
Returns on investments and servicing of finance					
Interest received		27,181		25,678	
Interest paid		(178,834)		(13,562)	
Net cash (outflow)inflow from returns on investments and servicing of finance			(151,653)		12,116
Taxation			(28,890)		(193,733)
Capital expenditure					
Payments to acquire tangible fixed assets			(24,738)		(1,500)
(Decrease)/increase in cash	19,20		(69,548)		25,369

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 2008

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 2008 (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

	2008 £	2007 £
Staff costs consist of:		
Wages and salaries	716,842	640,818
Social security costs	76,876	66,546
Other pension costs	27,569	27,047
	<hr/>	<hr/>
	821,287	734,411
	<hr/>	<hr/>

The average number of employees during the year (including directors) was 19 (2007 - 18). All employees are involved in administrative activities.

3 Directors

No directors were paid through the company in the year (2007 - none).

None of the directors have retirement benefits accruing under money purchase pension schemes (2007 - none).

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 *(Continued)*

4 Operating profit

	2008 £	2007 £
This has been arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	6,937	4,478
Hire of plant and machinery - operating leases	66,215	94,372
Hire of other assets - operating leases	408,500	405,000
Auditors' remuneration - audit services	33,900	27,065
Exchange loss	936,279	37,643
	<hr/>	<hr/>
Other operating income comprises:		
Subtenant rental income	(144,886)	(119,977)
	<hr/>	<hr/>

5 Interest payable

	2008 £	2007 £
Interest payable on intercompany balances	87,631	174,237
Other interest	6,795	320
	<hr/>	<hr/>
	94,426	174,557
	<hr/>	<hr/>

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (Continued)

6 Taxation on profit on ordinary activities

	2008 £	2007 £
<i>Current tax</i>		
UK corporation tax on profits of the year	(85,500)	34,906
Adjustments in respect of previous years	(6,105)	1,461
	<hr/>	<hr/>
Total current tax	(91,605)	36,367
	<hr/>	<hr/>

The tax assessed for the year differs to the standard rate of corporation tax in the UK. The differences are explained below:

	2008 £	2007 £
Loss on ordinary activities before tax	(1,024,190)	(76,393)
	<hr/>	<hr/>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007 - 30%)	(291,894)	(22,918)
Effects of:		
Qualifying depreciation in excess of capital allowances for the period	1,977	(7,114)
Expenses not allowable for tax purposes	16,260	31,006
Imputed taxable income	15,860	33,932
Prior year adjustments	(6,105)	1,461
Losses carried forward on which no deferred tax is recognised	174,042	-
Difference in tax rates on losses carried back	(1,745)	-
	<hr/>	<hr/>
Current tax charge for year	(91,605)	36,367
	<hr/>	<hr/>

Factors that may affect future tax charges

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

	2008 £	2007 £
Accelerated capital allowances	27,727	20,800
Tax Losses	170,989	-
	<hr/>	<hr/>
Deferred tax asset	198,716	20,800
	<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 2008 (*Continued*)

7 Tangible assets

	Short leasehold improvements £	Fixtures, fittings and equipment £	Total £
<i>Cost</i>			
At 1 January 2008	234,400	288,187	522,587
Additions	-	24,738	24,738
	<hr/>	<hr/>	<hr/>
At 31 December 2008	234,400	312,925	547,325
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 January 2008	234,400	280,872	515,272
Charge for the year	-	6,937	6,937
	<hr/>	<hr/>	<hr/>
At 31 December 2008	234,400	287,809	522,209
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2008	-	25,116	25,116
	<hr/>	<hr/>	<hr/>
At 31 December 2007	-	7,315	7,315
	<hr/>	<hr/>	<hr/>

8 Stocks

	2008 £	2007 £
Goods for resale	380,655	335,841
	<hr/>	<hr/>

9 Debtors

	2008 £	2007 £
Trade debtors	47,652	41,745
Amounts owed by fellow subsidiary undertakings	1,289,063	1,714,796
Other debtors	378,476	336,864
Prepayments	241,482	258,922
Corporation Tax	35,671	-
	<hr/>	<hr/>
	1,992,344	2,352,327
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year except amounts owed by fellow subsidiary undertakings of £1,289,063 (2007 - £1,651,003) (see note 17).

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (Continued)

10 Creditors: amounts falling due within one year

	2008 £	2007 £
Bank overdraft	5,232	40,370
Trade creditors	66,343	91,858
Amounts owed to parent undertaking	2,711,403	2,367,856
Amounts owed to fellow subsidiary undertakings	1,166,284	869,589
Corporation tax	-	34,232
Other taxation and social security	279,476	299,446
Accruals and deferred income	276,841	230,229
Sub-tenant rental deposits	78,275	-
	<u>4,583,854</u>	<u>3,933,580</u>

11 Creditors: amounts falling due after more than one year

	2008 £	2007 £
Sub-tenant rental deposits	-	36,577
	<u>-</u>	<u>36,577</u>

12 Provisions for liabilities

	Onerous lease £
At 1 January 2008	103,279
Utilised in year	(83,166)
	<u>20,113</u>
At 31 December 2008	<u>20,113</u>

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 2008 (Continued)

13 Share capital

	2008 Number	Authorised 2007 Number	2008 £	2007 £
Ordinary shares of £1 each	500,000	500,000	500,000	500,000
	2008 Number	Issued 2007 Number	2008 £	2007 £
Ordinary shares of £1 each	100,000	100,000	100,000	100,000

14 Reserves

	Profit and loss account £
At 1 January 2008	(604,768)
Loss for the year	(932,585)
At 31 December 2008	(1,537,353)

15 Reconciliation of movements in shareholders' deficit

	2008 £	2007 £
Loss for the year	(932,585)	(112,760)
Net increase in shareholder's deficit	(932,585)	(112,760)
Opening shareholder's deficit	(504,768)	(392,008)
Closing shareholder's deficit	(1,437,353)	(504,768)

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 *(Continued)*

16 Commitments under operating leases

As at 31 December 2008, the company had annual commitments under non-cancellable operating leases as set out below:

	2008 Land and buildings £	2008 Other £	2007 Land and buildings £	2007 Other £
Operating leases which expire:				
Within one year	149,000	32,319	-	65,245
In two to five years	259,500	64,228	408,500	23,944
	<u>408,500</u>	<u>96,547</u>	<u>408,500</u>	<u>89,189</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:

	2008 £	2007 £
Product purchased from the manufacturer, Mary Kay Inc, for resale in the United Kingdom on normal trading terms	<u>787,629</u>	<u>801,338</u>
Consulting services provided to the company by Mary Kay Inc and fellow subsidiary undertakings:		
Mary Kay Inc	<u>166,998</u>	<u>162,782</u>
Consulting services provided by the Company recharged to Mary Kay Inc and fellow subsidiary undertakings:		
Pink Rose Information System Services Limited	<u>(18,000)</u>	<u>(45,600)</u>
Intercompany interest payable relating to related party transactions:		
Mary Kay Inc	<u>60,252</u>	<u>118,822</u>
Fellow subsidiary undertakings	<u>27,379</u>	<u>55,415</u>

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 (Continued)

17 Related party transactions (Continued)

	2008 £	2007 £
Related party receivables at year end:		
Mary Kay Cosmetics SA, surcursal em Portugal	-	164,584
Tov Mary Kay (Ukraine) Limited	315,996	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
Pink Rose Information System Services Limited	81,056	63,793
	<hr/>	<hr/>
All amounts fall due for payment in more than one year.		
Related party payables at year end:		
Mary Kay Inc	2,711,403	2,367,856
Mary Kay Cosmetics GmbH	1,166,284	869,589
	<hr/>	<hr/>

18 Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2008 £	2007 £
Operating (loss)/profit	(956,945)	72,486
Depreciation	6,937	4,478
Increase in stocks	(44,814)	(21,154)
Decrease in debtors	446,246	590,664
Increase/(decrease) in creditors	767,475	(372,097)
Decrease in provisions	(83,166)	(65,891)
	<hr/>	<hr/>
Net cash inflow from operating activities	135,733	208,486
	<hr/>	<hr/>

19 Reconciliation of net cash flow to movement in net funds

	2008 £	2007 £
(Decrease)/increase in cash in the year	(69,548)	25,369
	<hr/>	<hr/>
Change in net funds	(69,548)	25,369
	<hr/>	<hr/>
Net funds at 1 January	832,815	807,446
	<hr/>	<hr/>
Net funds at 31 December	763,267	832,815
	<hr/>	<hr/>

Mary Kay Cosmetics (UK) Limited

Notes forming part of the financial statements
for the year ended 31 December 2008 *(Continued)*

20 Analysis of net funds

	At 1 January 2008 £	Cash flow £	At 31 December 2008 £
Cash in hand and at bank	873,185	(104,686)	768,499
Overdrafts	(40,370)	35,138	(5,232)
	<hr/>	<hr/>	<hr/>
Total	832,815	(69,548)	763,267
	<hr/>	<hr/>	<hr/>

21 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.