

2767620

**MARY KAY COSMETICS (UK) LIMITED**  
**DIRECTORS' REPORT AND ACCOUNTS**  
**31 DECEMBER 1996**



## **MARY KAY COSMETICS (UK) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996**

The Directors submit their report and the financial statements of the Company for the year ended 31 December 1996.

#### **REGISTERED NUMBER**

The Company's registered number is 2767620.

#### **RESULTS AND DIVIDENDS**

The Company made a profit of £337,408 for the year to 31 December 1996 (1995: profit of £119,333) and this amount has been transferred to reserves. The directors are unable to recommend the payment of a dividend.

#### **PRINCIPAL ACTIVITIES**

The Company offers a range of high quality skin care and cosmetics products through its salesforce of independent Beauty Consultants in the United Kingdom. It also supports the development of Mary Kay companies in Continental Europe.

#### **REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

The Company achieved substantial increases in its salesforce of independent Beauty Consultants versus the prior year.

Sales more than doubled reflecting the growth in Consultant count. Tight control of fixed expenses ensured that the growth in sales translated into operational profitability.

A strong base of operations has been established in the UK which will permit steady and secure growth in future years.

#### **CHARITABLE DONATIONS**

Charitable donations of £300 were made during the year.

#### **DIRECTORS**

The Directors of the Company during the year were:

RL Smith  
RB Clark (Chairman)  
TM Byrd  
G Rubio  
EA Cameron  
S O'Connell Cooper (appointed 28 February 1996)

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 1996 (Continued)

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act 1985 requires the Directors to prepare for each financial period financial statements which give a true and fair view of the state of affairs of the Company at the end of that period, and of the profit or loss for the period to that date. In preparing the financial statements, the Directors are also required:

- a) to select suitable accounting policies and apply them consistently, supported as appropriate by reasonable and prudent judgements and estimates;
- b) to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- c) to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The Directors consider that they have complied fully with the above requirements in preparing the financial statements on pages 4 to 13.

The Directors also have responsibility for:

- a) keeping appropriate accounting records which disclose with reasonable accuracy the financial position of the Company at any time;
- b) taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

#### AUDITORS

A resolution concerning the re-appointment of Price Waterhouse as the Company's auditors and the fixing of their remuneration will be submitted at the Annual General Meeting.

By Order of the Board



EA Cameron  
30 October 1997

*Price Waterhouse*



**AUDITORS' REPORT TO THE MEMBERS OF  
MARY KAY COSMETICS (UK) LIMITED**

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

**Respective responsibilities of Directors and Auditors**

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1996 and of its profit and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

*Price Waterhouse*

Chartered Accountants  
and Registered Auditors

30 October 1997

**MARY KAY COSMETICS (UK) LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	<u>1996</u> £	<u>1995</u> £
<b>TURNOVER</b>	1(b)	3,149,129	1,488,434
Cost of sales		(2,116,514)	(1,001,507)
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		1,032,615	486,927
Administrative expenses		(1,785,004)	(1,640,371)
Distribution costs		(66,157)	(86,385)
Other operating income	2	<u>1,552,684</u>	<u>1,437,660</u>
<b>OPERATING PROFIT</b>		734,138	197,831
Interest receivable and similar income	4	11,374	11,185
Interest payable	4	(258,255)	(89,683)
		<hr/>	<hr/>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2	487,257	119,333
Taxation	5	(149,849)	-
		<hr/>	<hr/>
<b>PROFIT FOR THE YEAR AFTER TAXATION</b>		337,408	119,333
<b>PROFIT AND LOSS ACCOUNT BROUGHT FORWARD</b>		(439,119)	(558,452)
		<hr/>	<hr/>
<b>PROFIT AND LOSS ACCOUNT CARRIED FORWARD</b>		(101,711)	(439,119)
		<hr/>	<hr/>

Turnover is derived from continuing activities

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

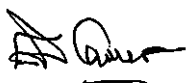
The notes on pages 7 to 13 form part of these accounts.

**MARY KAY COSMETICS (UK) LIMITED**

**BALANCE SHEET AS AT 31 DECEMBER 1996**

	Notes	1996 £	1995 £
<b>FIXED ASSETS</b>			
Tangible assets	7	189,546	324,328
<b>CURRENT ASSETS</b>			
Stocks	8	734,715	16,480
Debtors	9	2,581,178	1,660,513
Cash at bank and in hand		<u>160,885</u>	<u>185,799</u>
		3,476,778	1,862,792
<b>CREDITORS : Amounts falling due within one year</b>	10	<u>(3,668,035)</u>	<u>(2,526,239)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(191,257)</u>	<u>(663,447)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(1,711)</u>	<u>(339,119)</u>
Represented by:			
<b>SHARE CAPITAL</b>	11	100,000	100,000
<b>PROFIT AND LOSS ACCOUNT</b>		<u>(101,711)</u>	<u>(439,119)</u>
<b>SHAREHOLDERS' FUNDS</b>	12	<u>(1,711)</u>	<u>(339,119)</u>

Approved by the Board on 30 October 1997



EA Cameron (Director)

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

**MARY KAY COSMETICS (UK) LIMITED**

**CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	<u>1996</u> £	<u>1995</u> £
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	13	(55,720)	456,805
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		11,374	6,611
<b>CAPITAL EXPENDITURE</b>			
Purchase of tangible fixed assets		(48,571)	(290,930)
Sale of tangible fixed assets		27,177	-
		<hr/>	<hr/>
<b>NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING</b>		(65,740)	172,486
<b>FINANCING</b>		-	-
		<hr/>	<hr/>
<b>(DECREASE)/INCREASE IN CASH IN THE PERIOD</b>	14	<u>(65,740)</u>	<u>172,486</u>

# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996

### 1 ACCOUNTING POLICIES

#### (a) Accounting Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts have been prepared on the presumption that the Company will continue to operate as a going concern and that May Kay Cosmetics, Inc will continue to support the activities of the Company in the foreseeable future.

#### (b) Turnover

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

#### (c) Tangible assets and depreciation

Tangible assets are stated at cost to the Company. Depreciation is calculated on a straight line basis so as to write off the cost of the various assets over their expected useful lives. The annual rates of depreciation are as follows:

Leasehold improvements	Life of lease
Computer equipment	25%
Motor vehicles	25%
Fixtures and fittings	25%

#### (d) Stocks

Stocks are stated at the lower of cost and net realisable value.

#### (e) Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial period except for fixed assets and stocks which are translated at the rates of exchange ruling when the assets were acquired. All exchange gains and losses are credited or charged to the profit and loss account.

#### (f) Operating lease costs

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

#### (g) Pension costs

The Company operates a money purchase pension scheme for employees. Company contributions are charged to the profit and loss account in the period to which they relate.



# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)

### 2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1996</u> £	<u>1995</u> £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	14,500	16,200
Depreciation	165,078	138,800
Operating lease costs (land and buildings)	90,000	90,000
Exchange (gain)/loss	(320,591)	119,359
Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs)	(597,625)	(1,331,711)
<b>Other operating income comprises:</b>		
	=====	=====
Management fees from parent undertaking and fellow subsidiary undertakings	(1,552,684)	(1,437,660)
	=====	=====

### 3 STAFF COSTS

	<u>1996</u> £	<u>1995</u> £
Wages and salaries	1,021,529	1,051,529
Social security costs	88,319	92,390
Other pension costs	<u>20,484</u>	<u>16,471</u>
	1,130,332	1,160,390
	=====	=====

The average number of employees during the year (including directors) was 23 (1995: 26).

# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)

### 4 INTEREST RECEIVABLE AND PAYABLE

	<u>1996</u> £	<u>1995</u> £
Bank interest receivable	11,374	6,611
Intercompany interest receivable	<u>-</u>	<u>4,574</u>
	<u>11,374</u>	<u>11,185</u>
 Intercompany interest on amounts owed to parent undertaking	 <u>258,255</u>	 <u>89,683</u>

### 5 TAXATION

	<u>1996</u> £	<u>1995</u> £
UK Corporation tax at 33%	-	-
Prior year adjustment	-	-
- Overseas withholding tax	149,849	-
	<u>149,849</u>	<u>-</u>

There is no UK corporation tax charge as the Company has sufficient brought forward tax losses to match the profit for the year.

### 6 DIRECTORS EMOLUMENTS

	<u>1996</u> £	<u>1995</u> £
Total Directors' remuneration (including pension scheme contributions)	360,790	303,506
Details of Directors' emoluments (excluding pension scheme contributions) are as follows:		
Highest paid director	193,267	165,625
Chairman	-	-
Directors emoluments fell within the following ranges:		
	<u>Number</u>	<u>Number</u>
£0 - £5,000	4	5
£120,001 - £125,000	-	1
£155,001 - £160,000	1	-
£165,001 - £170,000	-	1
£190,001 - £195,000	1	-

**MARY KAY COSMETICS (UK) LIMITED**

**NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)**

**7 TANGIBLE ASSETS**

	<u>Short leasehold improvements</u> £	<u>Motor vehicles</u> £	<u>Fixtures, fittings &amp; equipment</u> £	<u>Total</u> £
<b>Cost</b>				
At 1 January 1996	164,842	144,467	243,862	553,171
Additions	3,722	3,631	41,218	48,571
Disposals	-	(101,304)	-	(101,304)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	168,564	46,794	285,080	500,438
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated Depreciation</b>				
At 1 January 1996	44,964	92,410	91,469	228,843
Charge for the year	66,690	19,737	78,651	165,078
Disposals	-	(83,029)	-	(83,029)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	111,654	29,118	170,120	310,892
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Book Value</b>				
At 31 December 1996	56,910	17,676	114,960	189,546
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1995	119,878	52,057	152,393	324,328
	<hr/>	<hr/>	<hr/>	<hr/>

**8 STOCKS**

	<u>1996</u> £	<u>1995</u> £
Goods for resale	734,715	16,480
	<hr/>	<hr/>

# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)

### 9 DEBTORS

	<u>1996</u> £	<u>1995</u> £
Trade debtors	56,073	7,124
Amounts owed by fellow subsidiary undertakings	2,304,377	1,485,168
Other debtors	108,752	102,698
Prepayments	<u>111,976</u>	<u>65,523</u>
	<u>2,581,178</u>	<u>1,660,513</u>

Included within "other debtors" is an amount of £81,200 (1995 : £75,000) which is due after more than one year.

### 10 CREDITORS : Amounts falling due within one year

	<u>1996</u> £	<u>1995</u> £
Bank overdraft	80,771	39,945
Trade creditors	130,779	87,030
Amounts owed to parent undertaking	644,732	767,018
Amounts owed to fellow subsidiary undertakings	2,290,379	1,267,249
Other creditors	130,327	168,081
Taxation and social security	142,592	30,400
Accruals and deferred income	<u>248,455</u>	<u>166,516</u>
	<u>3,668,035</u>	<u>2,526,239</u>

### 11 SHARE CAPITAL

	<u>1996</u> £	<u>1995</u> £
Authorised :		
500,000 ordinary £1 shares	500,000	500,000
Issued :		
100,000 ordinary £1 shares	<u>100,000</u>	<u>100,000</u>

# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)

### 12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u> £	<u>1995</u> £
Profit for the period	337,408	119,333
Net increase in shareholders' funds	337,408	119,333
Opening shareholders' funds	<u>(339,119)</u>	<u>(458,452)</u>
Closing shareholders' funds	<u>(1,711)</u>	<u>(339,119)</u>

### 13 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1996</u> £	<u>1995</u> £
Operating profit	734,138	197,831
Depreciation	165,078	138,800
Profit on disposal of tangible fixed assets	(8,902)	-
Increase in stocks	718,235	(10,571)
Increase in debtors	(1,070,514)	(1,168,836)
Increase in creditors	<u>842,715</u>	<u>1,299,581</u>
Net cash inflow from operating activities	<u>(55,720)</u>	<u>456,805</u>

### 14 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

	<u>1996</u> £	<u>1995</u> £
Balance at 1 January 1996	145,854	(26,632)
Net cash (outflow)/inflow	<u>(65,740)</u>	<u>172,486</u>
Balance at 31 December 1996 (note 15)	<u>80,114</u>	<u>145,854</u>

# MARY KAY COSMETICS (UK) LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1996 (Continued)

### 15 ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	<u>1 Jan</u> <u>1996</u> £	<u>Cashflow</u> £	<u>31 Dec</u> <u>1996</u> £
Cash at bank and in hand	185,799	(24,914)	160,885
Bank overdraft	<u>(39,945)</u>	<u>(40,826)</u>	<u>(80,771)</u>
	<u>145,854</u>	<u>(65,740)</u>	<u>80,114</u>

### 16 OPERATING LEASE COMMITMENTS

Annual commitments in respect of operating leases are as follows:

	<u>1996</u> £	<u>1995</u> £
Land and buildings which expire:		
Between one and two years	125,000	-
Between two and five years	<u>-</u>	<u>100,000</u>
	<u>125,000</u>	<u>100,000</u>

### 17 ULTIMATE PARENT

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 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.

### 18 RELATED PARTY TRANSACTIONS

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