

2767620

MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1993



MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1993

The Directors submit their report and the financial statements of the Company for the first accounting period ended 31 December 1993.

REGISTERED NUMBER

The Company's registered number is 2767620.

INCORPORATION

The Company was incorporated on 25 November 1992 as "RBCO 134 Limited". On 10 December 1992 a Special Resolution was passed to change the name of the Company to "Mary Kay Cosmetics Limited" and then a further Special Resolution was passed on 15 April 1993 to alter the name to Mary Kay Cosmetics (UK) Limited. A certificate of Incorporation on Change of Name was subsequently received dated 8 June 1993.

RESULTS AND DIVIDENDS

The Company made a loss of £1,648,002 for the 13 month period to 31 December 1993 and this amount has been transferred from reserves.

PRINCIPAL ACTIVITIES

Mary Kay Cosmetics (UK) Limited is involved in the sale of cosmetics products in the United Kingdom and also the development of Mary Kay Cosmetics in Europe.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company commenced trading on 1 November 1993 with the recruitment of Beauty Consultants in the UK. By the end of the year 105 consultants were working with the Company which was approximately consistent with the Company's early expectations. Sales per Beauty Consultant were ahead of forecast and total sales better than anticipated. Costs were in line with expectations although the Company expects to invest heavily in support of its objective to be a leader in the UK direct sales industry and did not anticipate an operating surplus in the early months.

Effective operational systems were put in place to permit consultant orders to be distributed from the parent company's German subsidiary with an acceptable turnaround time. All the required products and marketing literature were available to meet the start date. All legal requirements in support of the opening have been complied with and membership application has been made to the Direct Selling Association.

The Company intends to continue to invest in increasing the number of Beauty Consultants with whom it works and thus to increase its revenues.

MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1993 (CONTINUED)

FIXED ASSETS

Additions to fixed assets during the year are disclosed in note 6.

DIRECTORS

The persons who were Directors of the Company during the year:

RB Directors One Limited	(appointed 25 November 1992; resigned 10 December 1992)
RB Directors Two Limited	(appointed 25 November 1992; resigned 10 December 1992)
RB Glendening	(appointed 10 December 1992)
RL Smith	(appointed 10 December 1992)
RB Clark	(appointed 10 December 1992)
TM Byrd	(appointed 7 January 1993)
G Rubio	(appointed 7 January 1993)
EA Cameron	(appointed 23 June 1993)

None of the Directors have any interest in shares of the Company.

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 judgments 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.

The Directors consider that they have complied fully with the above requirements in preparing the financial statements on pages 5 to 14.

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.

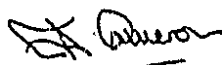
MARY KAY COSMETICS (UK) LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1993 (CONTINUED)

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
23 September 1994

Price Waterhouse



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

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

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 1993 and of its loss and cashflows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

23 September 1994

Offices at Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Hull, Leeds, Leicester, Liverpool, London, Manchester, Middlesbrough, Newcastle, Nottingham, Redhill, St Albans, Southampton and Windsor

The partnership's principal place of business is at Southwark Towers, 32 London Bridge Street, London SE1 9SY where a list of the partners' names is available for inspection. The firm is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

MARY KAY COSMETICS (UK) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE THIRTEEN MONTH PERIOD ENDED 31 DECEMBER 1993

	Notes	13 months 1993 £
TURNOVER	1(b)	30,951
Cost of sales		(36,257)
GROSS PROFIT		(5,306)
Administrative Expenses		(1,625,456)
Distribution Costs		(17,568)
OPERATING LOSS	2	(1,648,330)
Interest receivable and similar income		2,204
Interest payable	4	(1,876)
RETAINED PROFIT FOR THE YEAR BEFORE AND AFTER TAXATION		(1,648,002)
PROFIT AND LOSS ACCOUNT BROUGHT FORWARD		-
PROFIT AND LOSS ACCOUNT CARRIED FORWARD		(1,648,002)

Turnover is derived from continuing activities

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

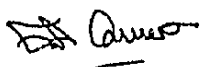
The notes on pages 8 to 14 form part of these accounts.

MARY KAY COSMETICS (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1993

	Notes	1993 £
FIXED ASSETS		
Tangible Assets	6	178,583
CURRENT ASSETS		
Stocks	7	4,393
Debtors	8	190,282
Cash at Bank and In hand		<u>26,978</u>
		221,653
CREDITORS : Amounts falling due within one year	9	<u>(1,948,238)</u>
NET CURRENT LIABILITIES		<u>(1,726,585)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(1,548,002)</u>
Represented by:		
SHARE CAPITAL	10	100,000
PROFIT AND LOSS ACCOUNT		<u>(1,648,002)</u>
		<u>(1,548,002)</u>

Approved by the Board on 23 September 1994



EA Cameron (Director)

The notes on pages 8 to 14 form part of these accounts.

MARY KAY COSMETICS (UK) LIMITED

CASHFLOW STATEMENT FOR THE THIRTEEN MONTH PERIOD ENDED 31 DECEMBER 1993

	Notes	13 months 1993	
		£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	12		57,439
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		2,204	
Interest paid		(36)	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			2,168
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(214,216)	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(214,216)
NET CASH OUTFLOW BEFORE FINANCING			(154,609)
FINANCING			
Issue of ordinary share capital	15	100,000	
NET CASH INFLOW FROM FINANCING			100,000
DECREASE IN CASH AND CASH EQUIVALENTS	13		(54,609)

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993

1 ACCOUNTING POLICIES

(a) Accounting Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(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:

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 ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

2 OPERATING LOSS

1993

£

Operating loss is stated after charging:

Auditors remuneration	- audit	20,000
	- other	62,395
Depreciation		35,633
Operating lease costs (land and buildings)		63,750
Exchange loss		33,263

3 STAFF COSTS

1993

£

Wages and salaries	488,866
Social security costs	42,667
	531,533

The average number of employees during the year (including directors) was 7.

4 INTEREST PAYABLE

1993

£

Bank overdraft, wholly repayable within five years	36
Intercompany interest on amounts owed to parent company	1,840
	1,876

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

5 DIRECTORS' EMOLUMENTS

	<u>1993</u> £
Total Directors' remuneration	617,584

Details of Directors' emoluments are as follows:

Chairman	362,588
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Directors' emoluments fell within the following ranges:

	<u>Number</u>
£0 - £5,000	5
£45,001 - £50,000	1
£205,001 - £210,000	1
£360,001 - £365,000	1

The Chairman's emoluments were paid by the immediate parent company.

6 TANGIBLE ASSETS

	<u>Motor vehicles</u> £	<u>Fixtures, fittings & equipment</u> £	<u>Total</u> £
COST			
Additions	123,714	90,502	214,216
At 31 December 1993	123,714	90,502	214,216
ACCUMULATED DEPRECIATION			
Charge for the year	27,780	7,853	35,633
At 31 December 1993	27,780	7,853	35,633
NET BOOK VALUE			
At 31 December 1993	95,934	82,649	178,583

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

7 STOCKS

1993
£

Goods for resale

4,393

8 DEBTORS

1993
£

Trade debtors

1,203

Other debtors

131,953

Prepayments

57,116

190,282

Included within "other debtors" is an amount of £75,000 which is due after more than one year.

9 CREDITORS : Amounts falling due within one year

1993
£

Bank overdraft

81,587

Trade creditors

74,804

Amounts owed to parent undertaking

1,574,478

Amounts owed to group undertakings

43,632

Other creditors

2,197

Taxation and social security

20,087

Accruals and deferred income

151,453

1,948,238

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

10 SHARE CAPITAL

1993
£

Authorised :

500,000 ordinary £1 shares 500,000

Issued :

100,000 ordinary £1 shares 100,000

The ordinary shares were issued during the year for a consideration of £100,000, as the initial financing on incorporation of the Company.

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

1993
£

Loss for the period (1,648,002)

New share capital subscribed 100,000

Net reduction in shareholders' funds (1,548,002)

Opening shareholders' funds -

Closing shareholders' funds (1,548,002)

12 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

1993
£

Operating loss (1,648,330)

Depreciation 35,633

Increase in stocks (4,393)

Increase in debtors (190,282)

Increase in creditors 1,864,811

Net cash inflow from operating activities 57,439

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

13 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE PERIOD

	<u>1993</u> £
Balance at 25 November 1992	-
Net cash outflow	<u>(54,609)</u>
Balance at 31 December 1993 (note 14)	<u>(54,609)</u>

14 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	<u>1993</u> £
Cash at bank and in hand	26,978
Bank overdraft	<u>(81,587)</u>
	<u>(54,609)</u>

15 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<u>Share capital</u> £
Balance at 25 November 1992	-
Issued during the year	<u>100,000</u>
Balance at 31 December 1993	<u>100,000</u>

16 OPERATING LEASE COMMITMENTS

Annual commitments in respect of operating leases are as follows:

	<u>1993</u> £
Land and buildings which expire:	
Between two and five years	<u>100,000</u>

MARY KAY COSMETICS (UK) LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1993 (CONTINUED)

17 ULTIMATE PARENT

The Company is a wholly owned subsidiary of Mary Kay Cosmetics, 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 Cosmetics, 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.