

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

Directors' Report and Financial Statements

31 December 1999



Mary Kay Cosmetics (UK) Limited

Directors' Report for the Year Ended 31 December 1999

The directors submit their report and the financial statements of the Company for the year ended 31 December 1999.

Results and dividends

The Company made a profit of £158,132 for the year to 31 December 1999 (1998: loss of £292,738) and this amount has been transferred to reserves. The directors do not recommend a dividend (1998: Nil).

Principal activities

The Company offers a range of high quality facial 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

After a decline in sales and recruiting rates in the first half of the year, new leadership and systems were put in place to reverse this trend and the Company has subsequently improved its operational profitability.

It is anticipated that with a new Europe-wide strategy of lowering the barriers in becoming a Mary Kay Consultant in 2000, combined with two exciting new product ranges that are planned, there will be renewed enthusiasm and interest in the career and selling opportunities that exist for Mary Kay Consultants in the UK.

Charitable donations

Charitable donations of £1,763 were made during the year (1998: £1,367).

Directors

The Directors of the Company during the year were:

David Holl	(appointed 29 December 1997)
Anne Margaret Butler	(appointed 1 January 1999, resigned 15 October 1999)
Julie Lynn Rasmussen	(appointed 1 March 1999)
R Bradley Glendening	(appointed 15 November 1999)
Arthur Raymond Patrick	(appointed 15 November 1999)
Gregory Franklin	(appointed 1 January 1999, resigned 3 August 1999)

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 1999 (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 11.

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

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



D B Holl

16 March 2001

Auditors' Report to the Members of Mary Kay Cosmetics (UK) Limited

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibility of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London

16 March 2001

Mary Kay Cosmetics (UK) Limited

Profit and Loss Account for the Year Ended 31 December 1999

	<i>Note</i>	1999 £	1998 £
Turnover	1 (b)	2,422,915	3,008,881
Cost of sales		(1,569,121)	(1,959,639)
Gross profit		853,794	1,049,242
Administrative expenses		(1,002,380)	(1,946,852)
Distribution costs		(56,907)	(73,197)
Other operating income	2	952,715	1,192,858
Operating profit		747,222	222,051
Bank Interest receivable		7,914	15,292
Interest payable	4	(373,014)	(414,271)
Profit/(Loss) on ordinary activities before taxation	2	382,122	(176,928)
Taxation	5	(223,990)	(115,810)
Profit/(Loss) for the year after taxation		158,132	(292,738)
Profit and loss account brought forward		(657,176)	(364,438)
Profit and loss account carried forward		(499,044)	(657,176)

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

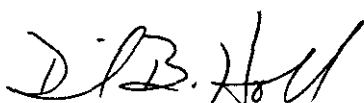
The notes on pages 6 to 11 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Balance Sheet As At 31 December 1999

	Note	£	1999 £	£	1998 £
Fixed assets					
Tangible assets	7		145,687		184,510
Current assets					
Stocks	8	400,097		554,612	
Debtors	9	3,146,189		3,545,896	
Cash at bank and in hand		454,223		340,738	
		4,000,509		4,441,246	
Creditors - amounts falling due within one year	10	(4,545,240)		(5,182,932)	
Net current liabilities			(544,731)		(741,686)
Total assets less current liabilities			(399,044)		(557,176)
Represented by:					
Share capital	11		100,000		100,000
Profit and loss account			(499,044)		(657,176)
Equity Shareholders' funds	12		(399,044)		(557,176)

Approved by the Board on 16 March 2001



D B Holl

The notes on pages 6 to 11 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 1999

1 Accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The financial statements have been prepared on the presumption that the Company will continue to operate as a going concern and that Mary Kay 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 Financial Statements - 31 December 1999

1 Accounting policies (continued)

(h) Cash flow statement

The company is not required to prepare a cash flow statement in accordance with the exemption conferred by Financial Reporting Standard 1 as it is a small company as defined by the Companies Act 1985.

2 Profit on ordinary activities before taxation

	1999 £	1998 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	40,045	35,363
Non-audit fees	22,418	24,276
Depreciation	54,432	82,896
Operating lease costs (land and buildings)	119,061	113,947
Exchange loss	113,231	64,868
Gain on disposal of Fixed Asset	(25,360)	(689)
Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs)	(1,751,564)	(1,302,530)
Other operating income comprises:		
Management fees from parent undertaking and fellow subsidiary undertakings	(952,715)	(1,192,858)

3 Employee costs

	1999 £	1998 £
Wages and salaries	743,647	1,044,894
Social security costs	34,260	71,697
Other pension costs	16,882	32,573
	794,789	1,149,164

The average number of employees during the year (including directors) was 27 (1998: 27).

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 1999

4 Interest payable

	1999 £	1998 £
Interest payable to parent undertaking	355,114	403,771
Interest on overdue tax	17,900	10,500
	373,014	414,271

5 Taxation

	1999 £	1998 £
UK Corporation tax at 30.25% (1998:31.00%)	223,990	60,399
Prior year adjustments		
- Corporation tax	-	55,411
	223,990	115,810

The Company has unprovided deferred tax assets arising as follows:

	1999 £	1998 £
Fixed asset timing differences	39,586	50,021
Other timing differences	122,175	96,483

6 Directors' emoluments

	1999 £	1998 £
Total directors' remuneration (excluding pension scheme contributions)	251,967	143,128
Compensation for loss of office	-	246,400

No director has retirement benefits accruing under money purchase pension schemes (1998: 1).

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 1999

7 Tangible assets

	Short- leasehold improvements £	Motor vehicles £	Fixtures, fittings & equipment £	Total £
Cost				
At 1 January 1999	66,072	22,410	437,902	526,384
Additions	-	-	17,494	17,494
Disposals	-	-	(145,480)	(145,480)
At 31 December 1999	66,072	22,410	309,916	398,398
Accumulated depreciation				
At 1 January 1999	3,453	22,410	316,011	341,874
Charge for the year	6,369	-	48,063	54,432
Disposals	-	-	(143,595)	(143,595)
At 31 December 1999	9,822	22,410	220,479	252,711
Net book value				
At 31 December 1999	56,250		89,437	145,687
At 31 December 1998	62,619	-	121,891	184,510

8 Stocks

	1999 £	1998 £
Goods for resale	400,097	554,612

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 1999

9 Debtors

	1999 £	1998 £
Trade debtors	147,502	65,401
Amounts owed by fellow subsidiary undertakings	2,796,554	3,335,595
Other debtors	104,452	92,952
Prepayments	97,681	51,948
	3,146,189	3,545,896

There are no debtors receivable after more than one year (1998 : £nil).

10 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank overdraft	126,004	84,821
Trade creditors	181,598	213,508
Amounts owed to parent undertakings	255,474	874,383
Amounts owed to fellow subsidiary undertakings	3,068,193	3,135,389
Other creditors	170,413	51,637
Taxation and social security	378,112	273,566
Accruals and deferred income	365,446	549,628
	4,545,240	5,182,932

11 Share capital

	1999 £	1998 £
Authorised:		
500,000 ordinary £1 shares	500,000	500,000
Issued:		
100,000 ordinary £1 shares	100,000	100,000

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 1999

12 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit/ (loss) for the period	158,132	(292,738)
Net increase/(decrease) in Shareholders' funds	158,132	(292,738)
Opening Shareholders' funds	(557,176)	(264,438)
Closing Shareholders' funds	(399,044)	(557,176)

13 Operating lease commitments

Annual commitments in respect of operating leases are as follows:

	1999 £	1998 £
Land and buildings which expire:		
Within one year	-	-
Between two and five years	100,000	100,000

14 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 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.

Copies of the Company's accounts can be obtained from the registered office at 28 Savile Row, London W1S 2EU.

15 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.