

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

Directors' Report and Financial Statements

31 December 2000



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Mary Kay Cosmetics (UK) Limited

Directors' Report for the Year Ended 31 December 2000

The Directors submit their report and the financial statements of the Company for the year ended 31 December 2000.

Results and dividends

The Company made a loss of £(332,372) for the year to 31 December 2000 (1999: profit of £158,132) and this amount has been transferred to reserves. The Directors are unable to recommend the payment of a dividend (1999: 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

Introduction of two new product lines during the last quarter had a positive effect on turnover.

The overall performance for the year was impacted by a review of operations resulting in the write off of intercompany balances no longer deemed recoverable.

All hardware upgrades have taken place in compliance with Year 2000.

European Centralisation of operational software will ensure maximum utilisation of resources to create an effective infrastructure for future growth.

Charitable donations

Charitable donations of £5,262 were made during the year (1999: £1,763).

Directors

The Directors of the Company during the year were:

David Holl
Julie Lynn Rasmussen
R. Bradley Glendening
Arthur Raymond Patrick

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 2000 (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 12.

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

23 October 2001

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

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London

25 October 2001

Mary Kay Cosmetics (UK) Limited

Profit and Loss Account for the Year Ended 31 December 2000

	<i>Note</i>	2000 £	1999 £
Turnover	1 (b)	2,751,973	2,422,915
Cost of sales		(2,011,626)	(1,569,121)
Gross profit		740,347	853,794
Administrative expenses		(1,652,438)	(1,002,380)
Distribution costs		(57,625)	(56,907)
Other operating income	2	604,004	952,715
Operating (loss) / profit		(365,712)	747,222
Bank Interest receivable		5,539	7,914
Interest payable on amounts owed to group undertakings		(173,136)	(373,014)
(Loss) / profit on ordinary activities before taxation	2	(533,309)	382,122
Taxation	4	200,937	(223,990)
(Loss) / profit for the year after taxation		(332,372)	158,132
Profit and loss account brought forward		(499,044)	(657,176)
Profit and loss account carried forward		(831,416)	(499,044)

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.

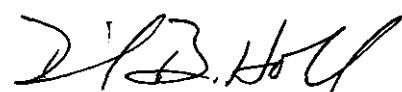
The notes on pages 6 to 12 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Balance Sheet As At 31 December 2000

	Note	£	2000 £	£	1999 £
Fixed assets					
Tangible assets	6		548,144		145,687
Current assets					
Stocks	7	614,046		400,097	
Debtors	8	3,676,981		3,146,189	
Cash at bank and in hand		49,874		454,223	
		4,340,901		4,000,509	
Creditors - amounts falling due within one year	9	(5,620,461)		(4,545,240)	
Net current liabilities			(1,279,560)		(544,731)
Total assets less current liabilities			(731,416)		(399,044)
Represented by:					
Share capital	10		100,000		100,000
Profit and loss account			(831,416)		(499,044)
Shareholders' funds	11		(731,416)		(399,044)

Approved by the Board on 23 October 2001


Director

The notes on pages 6 to 12 form part of these financial statements.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2000

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 2000

1 Accounting policies

(h) Deferred tax

Deferred taxation is provided for using the liability method on all timing differences which are expected to reverse in the foreseeable future without replacement.

(i) 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 Loss on ordinary activities before taxation

	2000 £	1999 £
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration - audit services	52,964	40,045
- other	35,004	22,418
Depreciation	109,625	54,432
Operating lease costs (land and buildings)	155,141	119,061
Exchange loss	154,018	113,231
Loss / (gain) on disposal of Fixed Asset	20,595	(25,360)
Reimbursement of current year market development costs from parent undertaking (presented within administrative expenses, netted against the relevant costs)	(1,587,573)	(1,751,564)
Other operating income comprises:		
Management fees from parent undertaking and fellow subsidiary undertakings	(604,004)	(952,715)

3 Employee costs

	2000 £	1999 £
Wages and salaries	738,722	743,647
Social security costs	39,537	34,260
Other pension costs	19,071	16,882
	797,330	794,789

The average number of employees during the year (including directors) was 23 (1999: 27)

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2000

4 Taxation

	2000 £	1999 £
UK Corporation tax at 30% and 31%	-	223,990
Prior year adjustments		
- Corporation tax	(200,937)	-
	<u>(200,937)</u>	<u>223,990</u>

5 Directors emoluments

	2000 £	1999 £
Total Directors' remuneration (excluding pension scheme contributions)	<u>251,016</u>	<u>251,967</u>

None of the directors have retirement benefits accruing under money purchase pension schemes (1999: None).

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2000

6 Tangible assets

	Short- leasehold improvements £	Motor vehicles £	Fixtures, fittings & equipment £	Total £
Cost				
At 1 January 2000	66,072	22,410	309,916	398,398
Additions	185,150	-	356,174	541,324
Disposals	(12,107)	(22,410)	(160,018)	(194,535)
At 31 December 2000	239,115	-	506,072	745,187
Accumulated depreciation				
At 1 January 2000	9,822	22,410	220,479	252,711
Charge for the year	9,435	-	100,190	109,625
Disposals	(2,853)	(22,410)	(140,030)	(165,293)
At 31 December 2000	16,404	-	180,639	197,043
Net book value				
At 31 December 2000	222,711	-	325,433	548,144
At 31 December 1999	56,250	-	89,437	145,687

7 Stocks

	2000 £	1999 £
Goods for resale	614,046	400,097

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2000

8 Debtors

	2000 £	1999 £
Trade debtors	45,150	147,502
Amounts owed by fellow subsidiary undertakings	3,244,997	2,796,554
Other debtors	287,523	104,452
Prepayments	99,311	97,681
	3,676,981	3,146,189

9 Creditors: amounts falling due within one year

	2000 £	1999 £
Bank overdraft	200,961	126,004
Trade creditors	164,592	181,598
Amounts owed to parent undertakings	1,064,457	255,474
Amounts owed to fellow subsidiary undertakings	3,437,757	3,068,193
Other creditors	146,487	170,413
Taxation and social security	55,748	378,112
Accruals and deferred income	550,459	365,446
	5,620,461	4,545,240

10 Share capital

	2000 £	1999 £
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 2000

11 Reconciliation of movements in shareholders' funds

	2000 £	1999 £
(Loss) / profit for the period	(332,372)	158,132
Net increase in Shareholders' funds	(332,372)	158,132
Opening Shareholders' funds	(399,044)	(557,176)
Closing Shareholders' funds	(731,416)	(399,044)

12 Deferred tax

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

	2000 £	1999 £
Accelerated capital allowances	(28,103)	(39,586)
Disallowed interest which may be recoverable in future	(123,647)	(38,400)
Deferred tax (asset)	(151,750)	(77,986)

13 Operating lease commitments

Annual commitments in respect of operating leases are as follows:

	2000 £	1999 £
Land and buildings which expire:		
Within one year	-	-
Between two and five years	385,000	100,000

In 2001 one of the properties forming an operating lease commitment at the year end has been let to a third party for an amount in excess of the lease obligation.

Mary Kay Cosmetics (UK) Limited

Notes to the Financial Statements - 31 December 2000

14 Contingent liabilities and contingent assets

Mary Kay Cosmetics (UK) Limited has a contingent asset in the form of a claim for overpaid VAT, for the period 30 June 1999 to 30 June 2001. The nature of the claim means that it is not possible to quantify the probable future transfer of economic benefit. There is a contingent liability for related professional fees, which is wholly dependent on the recoverable amount. This has not been recognised as it can not be measured with sufficient certainty.

15 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 Saville Row , London, W1S 2EU.

16 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.