



**FOREVER LIVING PRODUCTS (U.K.)  
LIMITED**

**Report and Financial Statements**

**31 December 1996**

**Deloitte & Touche  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN**



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## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

### ACTIVITIES

The principal activity of the company is the marketing of health, nutritional and beauty products. There has been no change in the principal activity of the company during the year.

### REVIEW OF DEVELOPMENTS

On St David's day 1997, at a prestigious venue in the Midlands, the company was pleased to present cheques to its distributors who had qualified in 1996 for the Presidents Club, the culmination of a very successful year.

The last twelve months reported show a continuation in the sales growth of the company and an improvement in the overall operating profit in the UK. The total physical case sales in the UK market increased by 66% compared to 1995, with the best month in 1996 40% higher than the corresponding month. The growth has continued in the first half of 1997 and is 23% up on the corresponding 1996 period. Our goal is to support the international objective of \$2 billion of retail sales by the year 2000 through continuous improvement.

The continuing improvement in the company cash flow has been reflected in the percentage of sales revenue electronically received at the point of sale. 70% of payments are now made through the card payment network, using either debit or credit cards, resulting in a speeding up of receipts. 1996 also saw the introduction of accounting software on the AS 400 to help manage the growing business and integrate the information flows. The use of technology has meant that there are now nine users with access to the mainframe and a growing competency amongst in house users.

November 1996 saw the successful introduction to the product range of Forever Lycium Plus, which now accounts for just over 1% of monthly sales, with drinks maintaining their traditional near 50% share of sales and products derived from the hive, such as honey and Bee Pollen, representing 10%.

The company's position of seventh in the world country sales rankings, together with the achievement of the Spirit Award by the UK distributors at the Dallas rally was a great tribute to the enthusiasm shown throughout the year and even more of the company's distributors have qualified to go to the Washington DC rally in 1997.

### DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. The results of the company are set out on page 5.

The profit for the year of £701,207 (1995 - £240,029) has been transferred to reserves.

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the ordinary share capital of the company were as follows:

	Ordinary shares of £1 each	
	1996	1995
R G Maughan	10,000	10,000
R Lloyd	-	-



**DIRECTORS' REPORT**

**AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

A handwritten signature in cursive script, appearing to read "R Lloyd".

R LLOYD

Secretary

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 as at the end of the financial year 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
- state whether applicable accounting standards have been followed
- 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. 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.



## Chartered Accountants

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## AUDITORS' REPORT TO THE MEMBERS OF FOREVER LIVING PRODUCTS (U.K.) LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

### Respective responsibilities of directors and auditors

As described on page 3 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 at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*  
Chartered Accountants and Registered Auditors

*28 October 1997*





**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 1996**

	Note	1996 £	1995 £
<b>TURNOVER</b>	2	9,014,700	5,104,124
Cost of sales		(2,349,059)	(1,192,561)
Gross profit		<u>6,665,641</u>	<u>3,911,563</u>
Distribution costs		(5,121,419)	(2,982,382)
Administrative expenses		(739,343)	(724,143)
Other operating income		34,468	34,991
		<u>(5,826,294)</u>	<u>(3,671,534)</u>
<b>OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Tax on profit on ordinary activities	2, 4 5	839,347 (138,140)	240,029 -
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>	15	<u>701,207</u>	<u>240,029</u>

All activities derive from continuing operations.

There are no recognised gains and losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.



**BALANCE SHEET**  
**31 December 1996**

	Note	£	1996 £	£	1995 £
<b>FIXED ASSETS</b>					
Tangible assets	6		99,597		67,755
<b>CURRENT ASSETS</b>					
Stocks	7	795,949		727,026	
Debtors	8	531,458		367,427	
Cash at bank and in hand		318,136		208,437	
			<u>1,645,543</u>	<u>1,302,890</u>	
<b>CREDITORS: amounts falling due within one year</b>	9	<u>(1,177,585)</u>		<u>(1,211,930)</u>	
<b>NET CURRENT ASSETS</b>			<u>467,958</u>		<u>90,960</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>567,555</u>		<u>158,715</u>
<b>CREDITORS: amounts falling due after more than one year</b>	10		(1,314,790)		(1,610,202)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	13		(3,045)		-
			<u>(750,280)</u>		<u>(1,451,487)</u>
<b>CAPITAL AND DEFICIENCY</b>					
Called up share capital	14		10,000		10,000
Profit and loss account	15		(760,280)		(1,461,487)
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	16		<u>(750,280)</u>		<u>(1,451,487)</u>

These financial statements were approved by the Board of Directors on *21 October 1997*,  
Signed on behalf of the Board of Directors

  
R MAUGHAN  
Director



**NOTES TO THE ACCOUNTS****Year ended 31 December 1996****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Basis of preparation**

In order to fund its working capital requirements the company is reliant upon loans from other companies in common ownership with it (as described in note 11). The directors of these companies have indicated their continuing intention to support the working capital requirement of the company and the directors have, therefore, adopted the going concern basis in the preparation of these accounts.

**Turnover**

Turnover represents the aggregate of amounts receivable for services and goods supplied in the ordinary course of business, excluding value added tax.

**Tangible fixed assets**

Tangible fixed assets are stated at cost. Depreciation is provided for all fixed assets to write off their cost on a reducing balance at the following rates:

Computers	25%
Vehicles	25%
Fixtures and office equipment	25%

**Stocks**

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

**Deferred taxation**

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

**Leases**

Assets held under finance leases and hire purchase contracts and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account as they are incurred.

**Pensions**

The company operates a money purchase scheme for the benefit of its employees. The company's contributions to this scheme are shown in Note 3.

**2. ANALYSIS OF TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

The turnover and profit before taxation is entirely attributable to the principal activity and arises in the United Kingdom.


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	1996	1995
	£	£
<b>Directors' emoluments</b>		
Other emoluments	16,534	13,101
	<u>No.</u>	<u>No.</u>
<b>Average number of persons employed</b>	<u>19</u>	<u>17</u>
	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	306,036	236,011
Social security costs	29,230	20,506
Other pension costs	7,534	4,666
	<u>342,800</u>	<u>261,183</u>

**4. OPERATING PROFIT**

	1996	1995
	£	£
<b>Operating profit is after charging / (crediting):</b>		
Depreciation		
Owned assets	33,199	19,420
Rentals under operating leases		
Hire of plant and machinery	2,604	10,987
Other operating leases	62,750	64,000
Auditors' remuneration		
Audit services	12,000	9,500
Foreign exchange (gains) / losses	(114,863)	32,949
	<u>(114,863)</u>	<u>32,949</u>

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	1996	1995
	£	£
United Kingdom corporation tax charge at 33%		
(1995 - 33%) based on the profit for the year	135,095	-
Deferred taxation	3,045	-
	<u>138,140</u>	<u>-</u>

The tax charge on the profit for the year has been reduced by losses of £425,000 brought forward, subject to agreement with the Inland Revenue.



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**

**6. TANGIBLE FIXED ASSETS**

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
<b>Cost</b>				
At 1 January 1996	37,169	48,582	23,704	109,455
Additions	27,948	11,820	28,310	68,078
Disposals	-	-	(7,304)	(7,304)
At 31 December 1996	<u>65,117</u>	<u>60,402</u>	<u>44,710</u>	<u>170,229</u>
<b>Accumulated depreciation</b>				
At 1 January 1996	15,335	16,461	9,904	41,700
Charge for the year	12,446	10,985	9,768	33,199
Disposals	-	-	(4,267)	(4,267)
At 31 December 1996	<u>27,781</u>	<u>27,446</u>	<u>15,405</u>	<u>70,632</u>
<b>Net book value</b>				
At 31 December 1996	<u>37,336</u>	<u>32,956</u>	<u>29,305</u>	<u>99,597</u>
At 31 December 1995	<u>21,834</u>	<u>32,121</u>	<u>13,800</u>	<u>67,755</u>

**7. STOCKS**

	1996 £	1995 £
Goods for resale	<u>795,949</u>	<u>727,026</u>

**8. DEBTORS**

	1996 £	1995 £
<b>Due within one year</b>		
Trade debtors	471,872	312,446
Other debtors	59,586	54,981
	<u>531,458</u>	<u>367,427</u>

At 31 December 1996, there was a loan outstanding of £49,085 (US\$84,000) (1995 - £54,103: US\$84,000) payable by an officer of the company.



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 1996**

**9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1996 £	1995 £
Obligations under hire purchase contracts (note 12)	-	6,701
Trade creditors	59,873	89,838
Corporation tax	135,095	-
Other taxation and social security	180,801	40,782
Amounts owed to related parties (note 11)	155,404	723,649
Accruals and deferred income	646,412	350,960
	<u>1,177,585</u>	<u>1,211,930</u>

**10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	1996 £	1995 £
Amounts owed to related parties (note 11)	1,314,790	1,610,202
	<u>1,314,790</u>	<u>1,610,202</u>

**11. RELATED PARTY TRANSACTIONS**

The company is controlled by Mr R Maughan, the director and principal shareholder.

The company owed the following amounts to companies in joint control with it.

	1996 £	1995 £
Aloe Vera of America Inc	9,316	656,316
Forever Living Products Netherlands BV	-	67,333
Forever Living Products Asia Limited	1,460,878	1,610,202
	<u>1,470,194</u>	<u>2,333,851</u>

These balances all fall due within one year with exception of the balance owed to Forever Living Products Asia Limited which is a non interest bearing term loan repayable in instalments.

These related party balances are repayable as follows:

	1996 £	1995 £
Within one year	155,404	723,649
Within one to two years	146,088	161,020
Within two to five years	438,264	483,061
After five years	730,438	966,121
	<u>1,470,194</u>	<u>2,333,851</u>

The company is dependent on the continuance of this funding in order to continue trading, as it is technically insolvent.

During the year the company purchased goods and services to the value of £1,969,269 from the companies named above. In addition, certain of these companies provided marketing and product development support to the company. The company occupies premises owned by Mr Maughan, for which no rent was charged in the year.



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 1996**

**12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS**

	1996 £	1995 £
Obligations under hire purchase contracts include amounts falling due within one year	-	6,701

**13. PROVISIONS FOR LIABILITIES AND CHARGES**

	£
<b>Deferred taxation</b>	
Balance at 1 January 1996	-
Provision - current year	3,045
Balance at 31 December 1996	3,045

The amounts provided in the accounts and the amounts not provided are as follows:

	Provided 1996 £	Provided 1995 £	Not provided 1996 £	Not provided 1995 £
Capital allowances in advance of depreciation	3,045	4,897	-	-
Other timing differences	-	(4,897)	-	(141,270)
	<u>3,045</u>	<u>-</u>	<u>-</u>	<u>(141,270)</u>

**14. CALLED UP SHARE CAPITAL**

	1996 £	1995 £
Authorised, allotted and fully paid 10,000 Ordinary shares of £1 each	10,000	10,000

**15. PROFIT AND LOSS ACCOUNT**

	£
At 1 January 1996	(1,461,487)
Profit for the year	701,207
At 31 December 1996	<u>(760,280)</u>



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**

**16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1996 £	1995 £
Profit for the financial year	701,207	240,029
Opening shareholders' funds	(1,451,487)	(1,691,516)
	<u>                    </u>	<u>                    </u>
Closing shareholders' funds	<u>(750,280)</u>	<u>(1,451,487)</u>

**17. FINANCIAL COMMITMENTS**

	1996 £	1995 £
<b>Capital commitments</b>		
Contracted for but not provided	-	-
	<u>                    </u>	<u>                    </u>

**Operating lease commitments**

At 31 December 1996, the company was committed to making the following payments during the next year in respect of operating leases.

	<b>Land and buildings 1996 £</b>	<b>Other 1996 £</b>	<b>Land and buildings 1995 £</b>	<b>Other 1995 £</b>
Leases which expire:				
Within one year	10,224	86	26,250	5,217
Within two to five years	-	1,540	14,000	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>10,224</u>	<u>1,626</u>	<u>40,250</u>	<u>5,217</u>

**ADDITIONAL INFORMATION**

The additional information on page 14 has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.


**TRADING ACCOUNT**  
**Year ended 31 December 1996**

	£	1996 £	£	1995 £
<b>TURNOVER</b>		9,014,700		5,104,124
<b>Cost of sales</b>				
Opening stock	727,026		245,736	
Purchases, freight and duty	2,417,982		1,673,851	
Closing stock	<u>(795,949)</u>		<u>(727,026)</u>	
		<u>2,349,059</u>		<u>1,192,561</u>
<b>GROSS PROFIT</b>		6,665,641		3,911,563
<b>Distribution costs</b>				
Bonuses	4,650,094		2,492,345	
Motor, travel and entertaining	63,419		54,361	
Printing and publicity	387,237		430,847	
Warehouse and delivery	<u>20,669</u>		<u>4,829</u>	
		5,121,419		2,982,382
<b>Administrative expenses</b>				
Wages, salaries and employment costs	350,630		245,410	
Leasing expense	-		4,738	
Repairs and maintenance	68,741		36,719	
Premises expenses	-		10,165	
Telephones	21,906		20,063	
Heat, light and power	10,556		7,662	
Rent, rates and insurances	71,890		122,372	
Bank charges	97,315		51,743	
Legal and professional fees	64,277		47,665	
Audit and accountancy	18,956		12,270	
Management expenses	77,063		101,001	
Depreciation	33,199		19,420	
Loss on disposal	2,537		-	
(Gain)/loss on exchange	(114,863)		32,949	
Sundry expenses	<u>37,136</u>		<u>11,966</u>	
		739,343		724,143
Other operating income		<u>34,468</u>		<u>34,991</u>
<b>OPERATING PROFIT</b>		<u><u>839,347</u></u>		<u><u>240,029</u></u>