

**FOREVER LIVING PRODUCTS (UK)
LIMITED**

Report and Financial Statements

31 December 2002



REPORT AND FINANCIAL STATEMENTS 2001

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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

The continued success of the call centre introduced in 2001 resulted in a further move away from ordering at local centres. Staff numbers have increased in the call centre and the internal target set for monitoring call taking has proved to be a great success with more and more distributors now using the facility.

The first price increase in five years impacted on January and February sales as expected with many distributors taking the opportunity to purchase at the end of 2001. However, from the end of the first quarter volume increased month on month leaving the overall volume increase 8% for 2002.

Distributor sponsorship was extremely healthy with an increase of 57% against 2001, proving that the recruitment tools introduced in 2002 are working well. Focus will shift in 2003 to trying to increase the number of new distributors progressing through the Marketing Plan.

The video and recruitment CD introduced in 2002 have both served to increase literature turnover by 51% to over £600,000 and with the introduction of another video due at the end of the first quarter of 2003, prospects for further growth in this area are very good.

Profitability in 2002 was helped by a further reduction in local centres, and thus the consequent reduction in rent, rates and other overheads. A slight reduction in staff numbers and a more settled operating environment for the computer systems has helped to reduce costs, and the move from a UK annual rally to a European event also results in a significant reduction in the cost base.

New products launched in 2002 have further enhanced the product range, particularly the MSM Gel which complements the Forever Freedom launched in 2001.

The current year has started in the same way that 2002 finished with very healthy sales. For January and February, sales have increased by 23% over the same two months of 2002.

A greater focus on budgets and cost control will help reduce the cost base further and, together with sustained sales growth, prospects for the current year look very good.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (2001 - £nil). The results of the company are set out on page 5.

The profit for the year of £1,032,159 (2001 -£157,286 loss) 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	
	2002	2001
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



R. LLOYD

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 1985. 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FOREVER LIVING PRODUCTS (UK) LIMITED**

We have audited the financial statements of Forever Living Products (UK) Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 Companies Act 1985. We also report 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

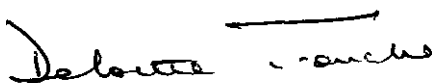
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 2002 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
Birmingham

20 June 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £	2001 £
TURNOVER	2	17,835,030	15,000,012
Cost of sales		<u>(4,994,935)</u>	<u>(4,375,709)</u>
Gross profit		<u>12,840,095</u>	<u>10,624,303</u>
Distribution costs		(8,684,645)	(7,655,698)
Administrative expenses		(2,717,401)	(3,233,526)
Other operating income		2,000	17,461
		<u>(11,400,046)</u>	<u>(10,871,763)</u>
OPERATING PROFIT/(LOSS)	4	1,440,049	(247,460)
Interest receivable		<u>14,159</u>	<u>24,909</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,454,208	(222,551)
Tax on profit/(loss) on ordinary activities	5	<u>(422,049)</u>	<u>65,265</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	14	<u><u>1,032,159</u></u>	<u><u>(157,286)</u></u>

All activities derive from continuing operations.

There are no recognised gains and losses other than the profit/(loss) for the financial years. Accordingly, no statement of total recognised gains and losses is given.

BALANCE SHEET
31 December 2002

	Note	£	2002 £	£	2001 £
FIXED ASSETS					
Tangible assets	6		103,655		132,492
CURRENT ASSETS					
Stocks	7	1,658,567		1,380,472	
Debtors	8	488,591		955,995	
Cash at bank and in hand		<u>1,842,775</u>		<u>1,673,671</u>	
		3,989,933		4,010,138	
CREDITORS: amounts falling due within one year	9	<u>(1,972,976)</u>		<u>(2,832,948)</u>	
NET CURRENT ASSETS			<u>2,016,957</u>		<u>1,177,190</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,120,612		1,309,682
CREDITORS: amounts falling due after more than one year	10		<u>(465,867)</u>		<u>(687,096)</u>
			<u>1,654,745</u>		<u>622,586</u>
CAPITAL AND RESERVES					
Called up share capital	13		10,000		10,000
Profit and loss account	14		<u>1,644,745</u>		<u>612,586</u>
EQUITY SHAREHOLDERS' FUNDS	15		<u>1,654,745</u>		<u>622,586</u>

These financial statements were approved by the Board of Directors on 16 June 2003

Signed on behalf of the Board of Directors

R MAUGHAN

Director

CASH FLOW STATEMENT
Year ended 31 December 2002

	Note	2002 £	2001 £
Cash inflow from operating activities	16	422,582	989,986
Return on investment and servicing of finance	17	14,159	24,909
Taxation		(67,440)	(89,796)
Capital expenditure and financial investment	17	(36,209)	(47,168)
Cash inflow before financing		333,092	877,931
Financing	17	(163,988)	(104,318)
Increase in cash in the year		<u>169,104</u>	<u>773,613</u>

Reconciliation of net cash flow to movement in net funds	18	2002 £	2001 £
Increase in cash in the year		169,104	773,613
Cash outflow from decrease in debt and lease financing		163,988	104,318
Change in net debt resulting from cash flows		333,092	877,931
Exchange movements on borrowings		73,725	(25,981)
Movement in net funds in the year		406,817	851,950
Net funds/(debt) at 1 January		814,801	(37,149)
Net funds at 31 December		<u>1,221,618</u>	<u>814,801</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002**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.

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 over the following periods:

Computers	3 years straight line
Fixtures and office equipment	5 years straight line
Vehicles	4 years straight line

Stocks

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

Deferred taxation

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases

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.

Foreign Currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

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 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002	2001
	£	£
Directors' emoluments		
Other emoluments	62,602	65,151
	<u>No</u>	<u>No</u>
Average number of persons employed	<u>55</u>	<u>57</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	989,644	1,072,337
Social security costs	78,185	96,026
Other pension costs	56,837	63,733
	<u>1,124,666</u>	<u>1,232,096</u>

4. OPERATING PROFIT/(LOSS)

	2002	2001
	£	£
Operating profit/(loss) is after charging/(crediting):		
Depreciation		
Owned assets	65,046	87,838
Rentals under operating leases		
Hire of plant and machinery	19,754	14,680
Other operating leases	355,518	365,883
Auditors' remuneration		
Audit services	14,500	13,000
Foreign exchange gains/(losses)	<u>(69,231)</u>	<u>181,470</u>

5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2002	2001
	£	£
United Kingdom corporation tax charge at 30%		
(2001 – 30%) based on the profit/(loss) for the year	233,000	-
Adjustment in respect of prior years	<u>(17,213)</u>	<u>183</u>
	215,787	183
Deferred taxation		
Timing differences, origination and reversal	<u>206,262</u>	<u>(65,448)</u>
	<u>422,049</u>	<u>(65,265)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the tax charge for the year:

The current tax charge varies from the standard rate of UK corporation tax due to the following factors:

	2002 £	2001 £
Profit/(loss) on ordinary activities before tax	1,454,208	(222,551)
Tax at 30% (2001 – 30%)	436,262	(66,765)
Expenses not deductible for tax purposes	2,240	1,318
Capital allowances in excess of depreciation	3,341	9,226
Utilisation of tax losses	(39,441)	39,441
Movement in short term timing differences	(170,162)	16,781
Marginal relief	760	-
Prior period adjustments	(17,213)	183
	<u>215,787</u>	<u>183</u>

6. TANGIBLE FIXED ASSETS

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
Cost				
At 1 January 2002	188,702	256,315	58,905	503,922
Additions	8,355	20,354	7,500	36,209
At 31 December 2002	<u>197,057</u>	<u>276,669</u>	<u>66,405</u>	<u>540,131</u>
Accumulated depreciation				
At 1 January 2002	154,587	177,696	39,147	371,430
Charge for the year	24,703	32,538	7,805	65,046
At 31 December 2002	<u>179,290</u>	<u>210,234</u>	<u>46,952</u>	<u>436,476</u>
Net book value				
At 31 December 2002	<u>17,767</u>	<u>66,435</u>	<u>19,453</u>	<u>103,655</u>
At 31 December 2001	<u>34,115</u>	<u>78,619</u>	<u>19,758</u>	<u>132,492</u>

7. STOCKS

	2002 £	2001 £
Goods for resale	<u>1,658,567</u>	<u>1,380,472</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. DEBTORS

	2002	2001
	£	£
Due within one year		
Trade debtors	7,758	17,274
Amounts owed by related parties	248,987	440,512
Corporation tax recoverable	-	83,500
Deferred tax asset (note 12)	18,599	224,861
Other debtors	213,247	189,848
	<u>488,591</u>	<u>955,995</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Trade creditors	280,546	261,002
Corporation tax	86,750	21,903
Other taxation and social security	50,270	71,304
Amounts owed to related parties (note 11)	493,746	1,397,005
Accruals and deferred income	1,061,664	1,081,734
	<u>1,972,976</u>	<u>2,832,948</u>

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

	2002	2001
	£	£
Amounts owed to related parties (note 11)	<u>465,867</u>	<u>687,096</u>

11. RELATED PARTY TRANSACTIONS

The ultimate controlling party is Mr R Maughan, the director and principal shareholder.

The balances shown in note 8 were owed by Forever Living Products Iceland, Forever Living Products Germany, Forever Living Products Israel, Forever Living Products Ireland, Forever Living Products Italy, Forever Living Products Netherlands, Forever Living Products Scandinavia, Forever Living Products France and Forever Living Products Hungary, all companies in joint control with the company.

	2002	2001
	£	£
The company owed the following amounts to companies in joint control with it.		
Aloe Vera of America Inc	315,733	1,152,917
Forever Living Products Asia Limited	621,157	858,870
Forever Living.com	22,723	72,314
	<u>959,613</u>	<u>2,084,101</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

11. RELATED PARTY TRANSACTIONS (continued)

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.

	2002	2001
	£	£
These related party balances are repayable as follows:		
In one year or less or on demand	493,746	1,397,005
In more than two years but not more than five years	465,867	687,096
	<u>959,613</u>	<u>2,084,101</u>

During the year the company purchased goods and services to the value of £3,606,686 (2001 - £2,970,730) 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 £61,000 (2001 - £61,000) rent was charged in the year. During the year, the company sold goods to the value of £64,805 (2001 - £221,771) to companies in common ownership.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation	
Balance at 1 January 2002	(224,861)
Provision - Current year charge	206,262
	<u>(18,599)</u>
Balance at 31 December 2002 (Note 8)	<u>(18,599)</u>

The amounts provided in the accounts are as follows:

	2002	2001
	£	£
Capital allowances in advance of depreciation	(18,599)	(15,258)
Other timing differences	-	(209,603)
	<u>(18,599)</u>	<u>(224,861)</u>

13. CALLED UP SHARE CAPITAL

	2002	2001
	£	£
Authorised, allotted and fully paid 10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

14. PROFIT AND LOSS ACCOUNT

	£
At 1 January 2002	612,586
Profit for the year	<u>1,032,159</u>
At 31 December 2002	<u>1,644,745</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit/(loss) for the financial year	1,032,159	(157,286)
Opening shareholders' funds	<u>622,586</u>	<u>779,872</u>
Closing shareholders' funds	<u><u>1,654,745</u></u>	<u><u>622,586</u></u>

16. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO OPERATING CASH FLOWS

	2002 £	2001 £
Operating profit/(loss)	1,440,049	(247,460)
Depreciation	65,046	87,838
(Increase)/Decrease in stock	(278,095)	259,277
Decrease in debtors	177,642	652,834
(Decrease)/Increase in creditors	(908,335)	211,516
Exchange differences on borrowings	<u>(73,725)</u>	<u>25,981</u>
Net cash inflow from operating activities	<u><u>422,582</u></u>	<u><u>989,986</u></u>

17. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2002 £	2001 £
Net cash inflow from return on investment and servicing of finance		
Interest receivable	<u>14,159</u>	<u>24,909</u>
Net cash outflow from capital expenditure and financial investment		
Purchase of tangible fixed assets	<u>(36,209)</u>	<u>(47,168)</u>
Net cash outflow from financing		
Repayment of inter company borrowings	<u>(163,988)</u>	<u>(104,318)</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

18. ANALYSIS OF NET FUNDS

	At 1 Jan 2002 £	Cash flow £	Exchange differences £	At 31 Dec 2001 £
Cash in hand and at bank	1,673,671	169,104	-	1,842,775
Borrowing from related company	(858,870)	163,988	73,725	(621,157)
	<u>814,801</u>	<u>333,092</u>	<u>73,725</u>	<u>1,221,618</u>

19. FINANCIAL COMMITMENTS

Capital commitments

There were no capital commitments contracted for but not provided at 31 December 2002 (2001 - £Nil).

Operating lease commitments

At 31 December 2002, the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings	
	2002 £	2001 £
Leases which expire:		
Within one year	112,733	42,500
Within two to five years	239,775	250,000
After five years	-	61,000
	<u>352,508</u>	<u>353,500</u>