



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

**Report and Financial Statements**

**31 December 1998**

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





**REPORT AND FINANCIAL STATEMENTS 1998**

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## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

### 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

After ten years of incorporation, the Company anticipates a proper financial rating from Credit Agencies with the posting of positive net shareholder worth this year. Despite well publicised pessimism in the UK economy, we felt that the likelihood of a soft landing in the coming year was greater than a recession and sales in the final quarter of 1998 and the first quarter of 1999 have held up well. Against a background of falling interest rates and cautious consumer spending, the Company has achieved another year of growth in both sales, up 22%, and market profile.

The deployment of cash balances to the money markets, which generated £25,000 interest income, and excellent cash management that saw bank charges fall as a percentage of sales were two highlights of the financial year. Effective cash flow planning and foreign currency purchases, underpinned the balance sheet strength.

At the UK Rally held in November 1998 at Wembley, London, the Company launched a new packaging concept and a complete range of quality cosmetics. Trademarked Sonya, this exciting development takes the company into a proven direct sales market, which in the UK alone is over £250 million in size. Trained beauty consultants supported an innovative packaging identity, The Pallet, and a wealth of marketing materials all underpinned by the company's commitment to quality. In addition to the all-new cosmetics, a well researched addition to the drinks range, Bits 'n' Peaches, was introduced, combining the appeal of premium aloe with the exotic taste of ripe peaches.

The year got off to a Flying Start with a promotional campaign that rewarded sound business building with quality logo sports bags. Costs of the rally in a prestigious location in London added to the operating costs of the business, a figure that will be much reduced in 1999 when the venue is Telford, Shropshire.

Currency fluctuations in the year were less dramatic than in previous years resulting in a small £14,000 loss compared with £113,000 in the previous year.

The new range of cosmetics and drinks increased the storage area required in the final quarter of 1998 and this continues to be reflected in the first half of 1999.

A significant part of the increase in debtors was due to the supply, on credit, of product to an FLP sister company in Spain. With the potential of an integrated European Market, the Board sees the appointment of Dusty Greene from the UK office to the role of Director of European Operations for Forever Living Products International as a statement of strategic intent. After seven years at the helm in England, Dusty has planted a healthy acorn which is growing steadily into a solid oak.

### 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 £551,554 (1997 - £614,007) 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	
	1998	1997
R G Maughan	10,000	10,000
R Lloyd	-	-



**DIRECTORS' REPORT**

**YEAR 2000**

The 'millennium bug' or 'Year 2000 issue' refers to potential problems in the processing of data or operation of electronic equipment affected by the transition from 1999 to 2000.

The directors have considered the impact of the Year 2000 on the company's systems and operations and have taken all appropriate action, to the best of their knowledge and belief, to ensure that there is no significant disruption to the business. The cost of carrying out any modification work in relation to the above is not considered to be material.

**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**

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.



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

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

### 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 1998 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

*2 August 1999*



**PROFIT AND LOSS ACCOUNT**

**Year ended 31 December 1998**

	Note	1998 £	1997 £
<b>TURNOVER</b>	2	13,798,645	11,307,081
Cost of sales		<u>(3,325,386)</u>	<u>(2,570,371)</u>
Gross profit		<u>10,473,259</u>	<u>8,736,710</u>
Distribution costs		(8,248,448)	(6,589,560)
Administrative expenses		(1,536,831)	(1,310,580)
Other operating income		94,155	60,502
		<u>(9,691,124)</u>	<u>(7,839,638)</u>
<b>OPERATING PROFIT</b>	4	782,135	897,072
Interest receivable		<u>25,435</u>	<u>-</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		807,570	897,072
Tax on profit on ordinary activities	5	<u>(256,016)</u>	<u>(283,065)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>	14	<u>551,554</u>	<u>614,007</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 1998**

	Note	1998	1997
		£	£
<b>FIXED ASSETS</b>			
Tangible assets	6	157,934	167,990
<b>CURRENT ASSETS</b>			
Stocks	7	1,492,366	1,269,810
Debtors	8	489,564	248,667
Cash at bank and in hand		1,712,568	1,269,035
		<u>3,694,498</u>	<u>2,787,512</u>
<b>CREDITORS: amounts falling due within one year</b>	9	<u>(2,385,342)</u>	<u>(1,870,750)</u>
<b>NET CURRENT ASSETS</b>		<u>1,309,156</u>	<u>916,762</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,467,090	1,084,752
<b>CREDITORS: amounts falling due after more than one year</b>	10	(1,051,809)	(1,215,510)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	-	(5,515)
		<u>415,281</u>	<u>(136,273)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	10,000	10,000
Profit and loss account	14	405,281	(146,273)
<b>EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)</b>	15	<u>415,281</u>	<u>(136,273)</u>

These financial statements were approved by the Board of Directors on 15 July 1999.

Signed on behalf of the Board of Directors

R MAUGHAN

Director




**CASH FLOW STATEMENT  
Year ended 31 December 1998**

	Note	1998 £	1997 £
Cash flow from operating activities	16	929,352	1,341,698
Return on investment and servicing of finance	17	25,435	-
Taxation		(304,990)	(110,700)
Capital expenditure and financial investment	17	(56,510)	(129,949)
<b>Cash inflow before financing</b>		<u>593,287</u>	<u>1,101,049</u>
Financing	17	(149,754)	(150,150)
<b>Increase in cash in the year</b>		<u>443,533</u>	<u>950,899</u>
<hr/>			
Reconciliation of net cash flow to movement in net funds/(debt)	18	1998 £	1997 £
<b>Increase in cash in the year</b>		443,533	950,899
Cash outflow from decrease in debt and lease financing		<u>149,754</u>	<u>150,150</u>
Change in net debt resulting from cash flows		593,287	1,101,049
Exchange movements on borrowings		<u>15,627</u>	<u>(56,721)</u>
<b>Movement in net debt in the year</b>		608,914	1,044,328
<b>Net debt at 1 January</b>		<u>(98,414)</u>	<u>(1,142,742)</u>
<b>Net funds/(debt) at 31 December</b>		<u>510,500</u>	<u>(98,414)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998****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 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**

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 1998**
**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	1998	1997
	£	£
<b>Directors' emoluments</b>		
Other emoluments	22,992	21,116
	<u>No.</u>	<u>No.</u>
<b>Average number of persons employed</b>	<u>30</u>	<u>23</u>
	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	570,316	429,432
Social security costs	51,245	39,620
Other pension costs	35,212	11,416
	<u>656,773</u>	<u>480,468</u>

**4. OPERATING PROFIT**

	1998	1997
	£	£
<b>Operating profit is after charging:</b>		
<b>Depreciation</b>		
Owned assets	56,988	61,556
<b>Rentals under operating leases</b>		
Hire of plant and machinery	7,317	1,626
Other operating leases	92,500	33,553
<b>Auditors' remuneration</b>		
Audit services	13,500	13,500
Foreign exchange losses	14,315	113,269
	<u>199,120</u>	<u>224,504</u>

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

	1998	1997
	£	£
United Kingdom corporation tax charge at 31% (1997 - 31.5%) based on the profit for the year	323,000	304,990
Deferred taxation	(66,984)	2,470
	<u>256,016</u>	<u>307,460</u>
Adjustment in respect of prior year - deferred tax	-	(24,395)
	<u>256,016</u>	<u>283,065</u>



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**6. TANGIBLE FIXED ASSETS**

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
<b>Cost</b>				
At 1 January 1998	105,623	149,845	44,710	300,178
Additions	18,435	38,792	-	57,227
Disposals	(39,178)	(14,914)	-	(54,092)
At 31 December 1998	<u>84,880</u>	<u>173,723</u>	<u>44,710</u>	<u>303,313</u>
<b>Accumulated depreciation</b>				
At 1 January 1998	51,410	58,046	22,732	132,188
Charge for the year	17,797	29,254	9,937	56,988
Disposals	(31,992)	(11,805)	-	(43,797)
At 31 December 1998	<u>37,215</u>	<u>75,495</u>	<u>32,669</u>	<u>145,379</u>
<b>Net book value</b>				
At 31 December 1998	<u>47,665</u>	<u>98,228</u>	<u>12,041</u>	<u>157,934</u>
At 31 December 1997	<u>54,214</u>	<u>91,799</u>	<u>21,978</u>	<u>167,990</u>

**7. STOCKS**

	1998 £	1997 £
Goods for resale	<u>1,492,366</u>	<u>1,269,810</u>

**8. DEBTORS**

	1998 £	1997 £
<b>Due within one year</b>		
Trade debtors	140,429	109,906
Amounts owed by related parties	177,961	50,907
Deferred tax asset (Note 12)	61,469	-
Other debtors	109,705	87,854
	<u>489,564</u>	<u>248,667</u>

At 31 December 1998, there was a loan outstanding of £50,487 (US\$ 84,000) (1997 - £51,052 (US\$ 84,000)) payable by an officer of the company.



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

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

	1998	1997
	£	£
Trade creditors	89,419	119,731
Corporation tax	323,000	304,990
Other taxation and social security	223,049	208,033
Amounts owed to related parties (note 11)	764,476	394,283
Accruals and deferred income	985,398	843,713
	<u>2,385,342</u>	<u>1,870,750</u>

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

	1998	1997
	£	£
Amounts owed to related parties (note 11)	<u>1,051,809</u>	<u>1,215,510</u>

**11. RELATED PARTY TRANSACTIONS**

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

The balances shown in note 8 were owed by Forever Living Products Netherlands BV, Forever Living Products New Zealand Limited, Forever Living Products Poland, Forever Living Products Germany, Forever Living Products Ireland Limited, Forever Living Products Spain and Forever Living Products Slovakia, all companies in joint control with the company.

	1998	1997
	£	£
The company owed the following amounts to companies in joint control with it.		
Forever Living Products, South Africa	78	-
Aloe Vera of America Inc	614,140	242,344
Forever Living Products Asia Limited	1,202,067	1,367,449
	<u>1,816,285</u>	<u>1,609,793</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.

	1998	1997
	£	£
These related party balances are repayable as follows:		
Within one year	554,476	394,283
Within one to two years	-	-
Within two to five years	450,775	455,816
After five years	601,034	759,694
	<u>1,606,285</u>	<u>1,609,793</u>

During the year the company purchased goods and services to the value of £2,981,764 (1997 - £2,775,571) 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 rent was charged in the year. During the year, the company sold goods to the value of £227,769 to companies in common ownership.



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**12. PROVISIONS FOR LIABILITIES AND CHARGES**

	£
<b>Deferred taxation</b>	
Balance at 1 January 1998	5,515
Provision Current year credit	<u>(66,984)</u>
Balance at 31 December 1998 (Note 8)	<u><u>(61,469)</u></u>

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

	Provided 1998 £	Provided 1997 £	Not provided 1998 £	Not provided 1997 £
Capital allowances in advance of depreciation	1,531	5,515	-	-
Other timing differences	<u>(63,000)</u>	-	-	-
	<u><u>(61,469)</u></u>	<u><u>5,515</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

**13. CALLED UP SHARE CAPITAL**

	1998 £	1997 £
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 1998	(146,273)
Profit for the year	<u>551,554</u>
At 31 December 1998	<u><u>405,281</u></u>

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

	1998 £	1997 £
Profit for the financial year	551,554	614,007
Opening shareholders' funds	<u>(136,273)</u>	<u>(750,280)</u>
Closing shareholders' funds	<u><u>415,281</u></u>	<u><u>(136,273)</u></u>



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**16. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS**

	1998 £	1997 £
Operating profit	782,135	897,072
Depreciation	56,988	61,556
Loss on sale of tangible fixed assets	9,578	-
(Increase) in stock	(222,556)	(473,861)
(Increase)/decrease in debtors	(179,428)	282,791
Increase in creditors	498,262	517,419
Exchange differences on borrowings	(15,627)	56,721
<b>Net cash inflow from operating activities</b>	<u>929,352</u>	<u>1,341,698</u>

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

	1998 £	1997 £
<b>Net cash inflow from return on investment and servicing of finance</b>		
Interest receivable	25,435	-
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(57,227)	(129,949)
Sale of tangible fixed assets	717	-
<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(56,510)</u>	<u>(129,949)</u>
<b>Net cash inflow from financing</b>		
Repayment of inter company borrowings	(149,754)	(150,150)

**18. ANALYSIS OF NET DEBT**

	At 1 January 1998 £	Cash flow £	Exchange differences £	At 31 December 1998 £
Cash in hand and at bank	1,269,035	443,533	-	1,712,568
Borrowing from related company	(1,367,449)	149,754	15,627	(1,202,068)
	<u>(98,414)</u>	<u>593,287</u>	<u>15,627</u>	<u>510,500</u>



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**19. FINANCIAL COMMITMENTS**

	1998	1997
	£	£
<b>Capital commitments</b>		
Contracted for but not provided	-	-

**Operating lease commitments**

At 31 December 1998, the company was committed to making the following payments during the next year in respect of operating leases.

	<b>Land and buildings 1998</b>	<b>Other 1998</b>	<b>Land and buildings 1997</b>	<b>Other 1997</b>
	£	£	£	£
Leases which expire:				
Within one year	-	-	-	635
Within two to five years	58,100	-	-	-
After five years	61,000	-	61,000	-
	<u>119,100</u>	<u>-</u>	<u>61,000</u>	<u>635</u>