

**Touche
Ross**

Dedicated To the
Industrial
International



Company Registration No. 2269910

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

Report and Financial Statements

31 December 1994

**Touche Ross & Co.
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN**





REPORT AND FINANCIAL STATEMENTS 1994

CONTENTS	Page
Directors' report	1
Statement of directors' responsibilities	3
Auditors' report	4
Profit and loss account	6
Balance sheet	7
Notes to the accounts	8
Additional information	14



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1994.

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

In 1994 the company built on the foundations laid in the previous two years and generated sales in excess of 20,000 cases of product for the first time. UK sales during the year were supplemented by a very successful development of Holland and Germany which accounted for 13% of the total product sales in the year. It was felt that these markets could best be further improved by the appointment of national sales managers and so from August 1st, the UK was free to focus its sales effort in the domestic market. With UK monthly sales growth of 13% compound in three of the last four months of the year, 32% ahead of the previous four months by comparison, a new platform for 1995 of 2,000 cases per month was predicted compared with 1,200 predicted for 1994 at this time. So far, in the first three months of the year, this figure has been exceeded by at least 23% and consequently this figure has been revised upwards to 2,500.

Margins were improved by the pricing decision implemented in January 1994 and a pricing strategy to harmonise European levels is being progressively introduced. The economies of scale derived from full container shipments reduced freight costs as a percentage of the value of products shipped and control of overheads, in particular those which are of a negotiable nature have been improved. The required staff levels to meet an expected demand of 4,000 cases per month are expected to have been reached with the addition of up to a maximum of two people in the near future.

Significant benefits will be derived in 1995 as a consequence of the introduction of electronic card payment processing together with lower bank and card charges. With card payments accounting for 35% of turnover, the reduction from 2.75% to 1.75% will be of direct benefit to the bottom line.

The strengthening of the balance sheet with the loan of US\$2.5m and stream of cash now being paid into the bank account of our principle supplier, Aloe Vera of America sets the scene for the medium term financial strategy. Loan repayment and product purchases will be paid for from current cash flow and FLP (UK) Limited will strive to be the jewel in the European crown.

Longbridge Manor, headquarters of Forever Living Products in the UK continues to excite and give heart to existing and potential distributors. It has become, like the products and people which Forever Living is rightly proud of, part of the Jonathan success.

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 6.

The deficit for the year of £395,695 (1993: £316,747) has been transferred to reserves

FIXED ASSETS

Movements in fixed assets are shown in note 6 to these financial statements.

DIRECTORS' REPORT

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	
	1994	1993
R G Maughan	10,000	10,000
R Lloyd	-	-

AUDITORS

Touche Ross & Co. 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. LOYD
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

Touche Ross & Co.
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

Telephone: National 0121 200 2211
International + 44 121 200 2211
Fax (Gp. 3): 0121 236 1513

AUDITORS' REPORT TO THE MEMBERS OF

FOREVER LIVING PRODUCTS (U.K.) LIMITED

We have audited the financial statements on pages 6 to 13 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 significance of 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. However the evidence available to us was limited because we were not appointed auditors until 5 June 1994 and in consequence were unable to carry out auditing procedures necessary regarding the quantities and conditions of stocks appearing in the balance sheet at 31 December 1993 at £321,189. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosure made in note 11 concerning the company's reliance for continued funding on Mr Maughan and companies controlled by him. The financial statements have been prepared on a going concern basis, the validity of which depends upon the funding continuing to be available. The financial statements do not include any adjustments that would result from the discontinuance of this funding. Our opinion is not qualified in this respect.

Qualified opinion arising from limitation in audit scope

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1994 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985, except for any adjustments to the financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning stocks at the previous year end.

In respect alone of our work on opening stocks and we have not obtained all the information and explanations which we consider necessary for the purposes of our audit.

Touche Ross Co.

Chartered Accountants and Registered Auditors

3rd July 1995

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1994

	Note	1994 £	1993 £
TURNOVER			
Cost of sales	2	2,137,662 (668,633)	1,014,165 (441,799)
Gross profit		<u>1,469,029</u>	<u>572,366</u>
Distribution costs		(1,379,124)	(704,635)
Administrative expenses		(502,822)	(188,617)
Other operating income		17,222	4,139
		<u>(1,864,724)</u>	<u>(889,113)</u>
OPERATING LOSS BEING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on loss on ordinary activities	4 5	(395,695)	(316,747)
		<u>-</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	15	<u>(395,695)</u>	<u>(316,747)</u>

All activities derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 1994

	1994 £	1993 £
Loss attributable to shareholders of the company	(395,695)	(316,747)
Note on prior period adjustment		
Total recognised gains and losses relating to the year	(395,695)	(316,747)
Prior period adjustment (as explained in note 12)	-	(222,677)
Total losses recognised since last annual report	<u>(395,695)</u>	<u>(539,424)</u>

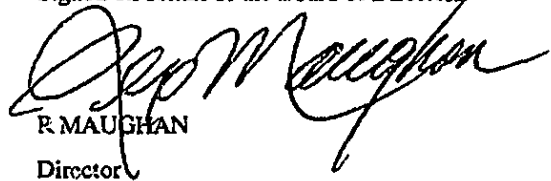


BALANCE SHEET
31 December 1994

	Note	£	1994 £	£	1993 £
FIXED ASSETS					
Tangible assets	6		67,989		16,491
CURRENT ASSETS					
Stocks	7	245,736		321,189	
Debtors due within one year	8	149,710		316,106	
Debtors due after more than one year	8	-		20,134	
Cash at bank and in hand		190,522		131,876	
			<u>585,968</u>	<u>789,305</u>	
CREDITORS: amounts falling due within one year	9	<u>(900,612)</u>		<u>(2,088,544)</u>	
NET CURRENT LIABILITIES			<u>(314,644)</u>		<u>(1,299,239)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(246,655)</u>		<u>(1,282,748)</u>
CREDITORS: amounts falling due after more than one year	10		<u>(1,444,861)</u>		<u>(13,073)</u>
			<u>(1,691,516)</u>		<u>(1,295,821)</u>
CAPITAL AND DEFICIENCY					
Called up share capital	14		10,000		10,000
Profit and loss account	15		<u>(1,701,516)</u>		<u>(1,305,821)</u>
EQUITY SHAREHOLDERS FUNDS - DEFICIT	16		<u>(1,691,516)</u>		<u>(1,295,821)</u>

These financial statements were approved by the Board of Directors on 14 April 1995

Signed on behalf of the Board of Directors


R. MAUGHAN
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 1994

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

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.

2. ANALYSIS OF TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss before taxation is entirely attributable to the principal activity.

NOTES TO THE ACCOUNTS
Year ended 31 December 1994

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1994	1993
	£	£
Directors' emoluments		
Other emoluments	3,535	5,461
	No	No
Average number of persons employed	12	7
	£	£
Staff costs during the year (including directors)		
Wages and salaries	164,487	63,388
Social security costs	13,349	4,428
Other pension costs	5,257	-
	183,093	67,816

4. OPERATING LOSS

	1994	1993
	£	£
Operating loss is after charging:		
Depreciation		
Owned assets	11,854	5,497
Rentals under operating leases		
Hire of plant and machinery	7,623	3,376
Other operating leases	72,704	25,000
Auditors' remuneration		
Audit services	9,500	10,300

5. TAX ON LOSS ON ORDINARY ACTIVITIES

The company has losses for corporation tax purposes of £665,000 (1993: £290,000) which are available for offset against future trading profits.



NOTES TO THE ACCOUNTS
Year ended 31 December 1994

6. TANGIBLE FIXED ASSETS

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
Cost				
At 1 January 1994	12,756	6,857	7,304	26,917
Additions	19,418	27,534	16,400	63,352
At 31 December 1994	<u>32,174</u>	<u>34,391</u>	<u>23,704</u>	<u>90,269</u>
Accumulated depreciation				
At 1 January 1994	4,365	4,157	1,904	10,426
Charge for the year	4,525	3,929	3,400	11,854
At 31 December 1994	<u>8,890</u>	<u>8,086</u>	<u>5,304</u>	<u>22,280</u>
Net book value				
At 31 December 1994	<u>23,284</u>	<u>26,305</u>	<u>18,400</u>	<u>67,989</u>
At 31 December 1993	<u>8,391</u>	<u>2,700</u>	<u>5,400</u>	<u>16,491</u>

7. STOCKS

	1994 £	1993 £
Goods for resale	<u>245,736</u>	<u>321,189</u>

8. DEBTORS

	1994 £	1993 £
Due within one year		
Trade debtors	55,039	226,565
Prepayments and accrued income	1,500	6,530
Other debtors	93,171	83,011
	<u>149,710</u>	<u>316,106</u>
Due after more than one year		
Other debtors	-	20,134

At 31 December 1994, there was a loan outstanding of £53,691 (US\$84,000) (1993 - £54,748 : US\$81,000) payable by an officer of the company.

NOTES TO THE ACCOUNTS
Year ended 31 December 1994

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1994	1993
	£	£
Trade creditors	38,923	26,218
Other taxation and social security	25,689	50,543
Amounts owed to related parties (note 11)	678,590	1,752,361
Accruals and deferred income	151,038	254,030
Obligations under hire purchase contracts (note 12)	6,372	5,392
	<u>900,612</u>	<u>2,088,544</u>

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

	1994	1993
	£	£
Amounts owed to related parties (note 11)	1,438,160	-
Obligations under hire purchase contracts (note 12)	6,701	13,073
	<u>1,444,861</u>	<u>13,073</u>

11. CREDITORS: AMOUNTS OWED TO RELATED PARTIES

The company owed the following amounts to a director, Mr R Maughan and companies controlled by him. No interest was charged on any of these balances.

	1994	1993
	£	£
Mr R Maughan	-	565,067
Aloe Vera of America Inc	451,018	1,097,743
Forever Living Products Netherlands BV	62,694	70,678
Forever Living Products Ireland Limited	-	18,873
Forever Living Products Germany GmbH	5,083	-
Forever Living Products Asia Limited	1,597,955	-
	<u>2,116,750</u>	<u>1,752,361</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:

	1994	1993
	£	£
Within one year	678,590	1,752,361
Within one to two years	159,796	-
Within two to five years	479,386	-
After five years	798,978	-
	<u>2,116,750</u>	<u>1,752,361</u>

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

NOTES TO THE ACCOUNTS
Year ended 31 December 1994

12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

Obligations under hire purchase contracts include amounts falling due

	1994	1993
	£	£
within one year	6,372	5,392
within one to two years	6,701	6,372
within two to five years	-	6,701
	<u>13,073</u>	<u>24,085</u>

13. PRIOR PERIOD ADJUSTMENT IN 1993

The prior period adjustment arose from the correction of a fundamental error in the carrying value of the balances with related parties not accounted for at 31 December 1992.

The prior period adjustment gave rise to a cumulative debit adjustment to reserves of £222,677 in the 1993 accounts of which £138,622 related to 1992 and the balance of £84,055 related to 1991 and prior periods.

14. CALLED UP SHARE CAPITAL

	1994	1993
	£	£
Authorised, allotted and fully paid 10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

15. PROFIT AND LOSS ACCOUNT

	£
At 1 January 1994	(1,305,821)
Loss for the year	<u>(395,695)</u>
At 31 December 1994	<u>(1,701,516)</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1994	1993
	£	£
Loss for the financial year	(395,695)	(316,747)
Opening shareholders' funds:		
As previously stated	(1,295,821)	(756,397)
Prior period adjustment (note 13)	<u>-</u>	<u>(222,677)</u>
	<u>(1,295,821)</u>	<u>(979,074)</u>
Closing shareholders' funds	<u>(1,691,516)</u>	<u>(1,295,821)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1994

17. FINANCIAL COMMITMENTS

	1994 £	1993 £
Capital commitments		
Contracted for but not provided	-	-
Authorised but not yet contracted for	-	-

Operating lease commitments

At 31 December 1994, the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings £	Other £
Leases which expire:		
Within one year	7,500	5,217
Within two to five years	14,000	-
After more than five years	25,000	-
	<u>46,500</u>	<u>5,217</u>



ADDITIONAL INFORMATION

The additional information on page 15 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.