

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

Report and Financial Statements

31 December 2000

**Deloitte & Touche
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Birmingham
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REPORT AND FINANCIAL STATEMENTS 2000

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

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 completion of the Centre of Excellence in Fulham, London in late 2000 meant that all proposed centres were operational at the turn of the year. Growth is expected to be generated from this centre in particular with such a large and affluent population and the case sales recorded for the first quarter of 2001 reflect this. Elsewhere, meetings are very well attended and the £116,000 raised by distributors of the company for the DEBRA sick children campaign shows that having a heart and a healthy business do go together especially with effective products like the Aloe Propolis skin cream.

The start of the new millennium and the opportunities which have presented themselves in this age of global awareness are something which the company fully intends to capitalise on. With experience of running a web site in the US and Canada, the board have decided to roll out the facility to the rest of the global network of distributors starting with the United Kingdom. With US IT support the UK Company can also benefit from computer facilities located at the head offices in Scottsdale, Arizona. The initial costs of setting up the web site together with the system transfer will be reflected wholly in the 2001 results whilst the benefits will be far more long term.

After successfully implementing the Customs warehouse agreement for a full twelve months, the company is now evolving an additional method for satisfying distributor orders through a dedicated call centre sited at the head offices in Warwick. On line credit card payment processing was introduced at the same time and will reduce the cost base as well as providing a platform for internet ordering. The launch of three new products into the personal care range was well received last November in particular the packaging.

At the time of going to press, the UK will be playing host to the prestigious World Rally of the top distributors and Managing Directors from many of the Forever Living Products worldwide.

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 £272,062 (1999 - £92,529) 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	
	2000	1999
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 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, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 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 at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2000

	Note	2000 £	1999 £
TURNOVER	2	14,607,702	13,982,178
Cost of sales		(3,950,761)	(4,127,935)
Gross profit		<u>10,656,941</u>	<u>9,854,243</u>
Distribution costs		(7,017,216)	(7,316,448)
Administrative expenses		(3,227,071)	(2,415,350)
Other operating income		6,706	7,219
		<u>(10,237,581)</u>	<u>(9,724,579)</u>
OPERATING PROFIT	4	419,360	129,664
Interest receivable		<u>12,822</u>	<u>16,553</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		432,182	146,217
Tax on profit on ordinary activities	5	(160,120)	(53,688)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	14	<u>272,062</u>	<u>92,529</u>

All activities derive from continuing operations.

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

BALANCE SHEET
31 December 2000

	Note	2000	1999
		£	£
FIXED ASSETS			
Tangible assets	6	173,162	182,478
CURRENT ASSETS			
Stocks	7	1,639,749	1,224,769
Debtors	8	1,460,065	1,415,582
Cash at bank and in hand		900,058	912,534
		<u>3,999,872</u>	<u>3,552,885</u>
CREDITORS: amounts falling due within one year	9	<u>(2,556,370)</u>	<u>(2,296,859)</u>
NET CURRENT ASSETS		<u>1,443,502</u>	<u>1,256,026</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,616,664	1,438,504
CREDITORS: amounts falling due after more than one year	10	<u>(836,792)</u>	<u>(930,694)</u>
		<u>779,872</u>	<u>507,810</u>
CAPITAL AND RESERVES			
Called up share capital	13	10,000	10,000
Profit and loss account	14	769,872	497,810
EQUITY SHAREHOLDERS' FUNDS	15	<u>779,872</u>	<u>507,810</u>

These financial statements were approved by the Board of Directors on 25 July 2001

Signed on behalf of the Board of Directors


R MAUGHAN
Director

CASH FLOW STATEMENT
Year ended 31 December 2000

	Note	2000 £	1999 £
Cash flow from operating activities	16	466,182	(159,911)
Return on investment and servicing of finance	17	12,822	16,553
Taxation		(193,869)	(412,867)
Capital expenditure and financial investment	17	(87,401)	(92,793)
Cash inflow/ (outflow) before financing		197,734	(649,018)
Financing	17	(210,210)	(151,016)
Decrease in cash in the year		<u>(12,476)</u>	<u>(800,034)</u>
<hr/>			
Reconciliation of net cash flow to movement in net debt	18	2000 £	1999 £
Decrease in cash in the year		(12,476)	(800,034)
Cash outflow from decrease in debt and lease financing		210,210	151,016
Change in net debt resulting from cash flows		197,734	(649,018)
Exchange movements on borrowings		(61,607)	(34,758)
Movement in net debt in the year		136,127	(683,776)
Net (debt)/funds at 1 January		(173,276)	510,500
Net debt at 31 December		<u>(37,149)</u>	<u>(173,276)</u>

NOTES TO THE ACCOUNTS**Year ended 31 December 2000****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:

	From 1 January 2000	To 31 December 1999
Computers	3 years straight line	25% reducing balance
Vehicles	4 years straight line	25% reducing balance
Fixtures and office equipment	5 years straight line	25% reducing balance

The effect of the change in depreciation method in the current year is not considered material.

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 2000

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000	1999
	£	£
Directors' emoluments		
Other emoluments	62,103	28,747
	<u>No.</u>	<u>No.</u>
Average number of persons employed	<u>49</u>	<u>37</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	1,031,998	817,100
Social security costs	85,645	73,899
Other pension costs	57,452	45,741
	<u>1,175,095</u>	<u>936,740</u>

4. OPERATING PROFIT

	2000	1999
	£	£
Operating profit is after charging:		
Depreciation		
Owned assets	95,614	64,467
Rentals under operating leases		
Hire of plant and machinery	15,235	10,452
Other operating leases	313,703	234,417
Auditors' remuneration		
Audit services	14,500	14,100
Foreign exchange losses	<u>441,983</u>	<u>149,590</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£	£
United Kingdom corporation tax charge at 30% (1999 – 30%) based on the profit for the year	201,000	111,000
Deferred taxation	<u>(40,880)</u>	<u>(57,064)</u>
	160,120	53,936
Adjustment in respect of prior year:		
Corporation tax	<u>-</u>	<u>(248)</u>
	<u>160,120</u>	<u>53,688</u>

The tax charge is disproportionate to the profit for the year as a result of expenditure which is not allowable for tax.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

6. TANGIBLE FIXED ASSETS

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
Cost				
At 1 January 2000	151,347	189,496	44,710	385,553
Additions	22,452	34,554	30,595	87,601
Disposals	-	-	(16,400)	(16,400)
At 31 December 2000	<u>173,799</u>	<u>224,050</u>	<u>58,905</u>	<u>456,754</u>
Accumulated depreciation				
At 1 January 2000	63,514	102,892	36,669	203,075
Charge for the year	52,496	36,623	6,495	95,614
Disposals	-	-	(15,097)	(15,097)
At 31 December 2000	<u>116,010</u>	<u>139,515</u>	<u>28,067</u>	<u>283,592</u>
Net book value				
At 31 December 2000	<u>57,789</u>	<u>84,535</u>	<u>30,838</u>	<u>173,162</u>
At 31 December 1999	<u>87,833</u>	<u>86,604</u>	<u>8,041</u>	<u>182,478</u>

7. STOCKS

	2000 £	1999 £
Goods for resale	<u>1,639,749</u>	<u>1,224,769</u>

8. DEBTORS

	2000 £	1999 £
Due within one year		
Trade debtors	25,892	33,420
Amounts owed by related parties	722,275	854,004
Corporation tax recoverable	184	-
Deferred tax asset (note 12)	159,413	118,533
Other debtors	552,301	409,625
	<u>1,460,065</u>	<u>1,415,582</u>

At 31 December 2000, there was a loan outstanding of £Nil (1999 - £52,119 (US\$ 84,000)) payable by a former officer of the company.

NOTES TO THE ACCOUNTS

Year ended 31 December 2000

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000	1999
	£	£
Trade creditors	202,128	201,083
Corporation tax	28,200	20,885
Other taxation and social security	36,694	39,646
Amounts owed to related parties (note 11)	1,515,779	1,250,650
Accruals and deferred income	773,569	784,595
	<u>2,556,370</u>	<u>2,296,859</u>

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

	2000	1999
	£	£
Amounts owed to related parties (note 11)	<u>836,792</u>	<u>930,694</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 Spain, Forever Living Products France, Forever Living Products New Zealand Limited, Forever Living Products Switzerland, Forever Living Products Poland, Forever Living Products South Africa, Forever Living Products Singapore and Forever Living Products Sweden, all companies in joint control with the company.

	2000	1999
	£	£
The company owed the following amounts to companies in joint control with it.		
Forever Living Products, South Africa	-	78
Forever Living Products, Netherlands	-	249
Aloe Vera of America Inc	1,415,364	1,071,461
Forever Living Products Asia Limited	937,207	1,085,810
Forever Living Products, Iceland	-	23,746
	<u>2,352,571</u>	<u>2,181,344</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.

	2000	1999
	£	£
These related party balances are repayable as follows:		
In one year or less or on demand	1,515,779	1,029,504
In more than two years but not more than five years	669,434	620,463
After five years	167,358	310,231
	<u>2,352,571</u>	<u>1,960,198</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2000

11. RELATED PARTY TRANSACTIONS (continued)

During the year the company purchased goods and services to the value of £4,508,218 (1999 - £3,366,991) 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 (1999 - £61,000) rent was charged in the year. During the year, the company sold goods to the value of £910,237 (1999 - £1,130,021) to companies in common ownership.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation	
Balance at 1 January 2000	(118,533)
Provision - Current year credit	(40,880)
	<hr/>
Balance at 31 December 2000 (Note 8)	<u>(159,413)</u>

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

	Provided 2000 £	Provided 1999 £	Not Provided 2000 £	Not provided 1999 £
Capital allowances in advance of depreciation	(6,032)	3,687	-	-
Other timing differences	(153,381)	(122,220)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>(159,413)</u>	<u>(118,533)</u>	<u>-</u>	<u>-</u>

13. CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised, allotted and fully paid 10,000 Ordinary shares of £1 each	<hr/> 10,000	<hr/> 10,000

14. PROFIT AND LOSS ACCOUNT

	£
At 1 January 2000	497,810
Profit for the year	272,062
	<hr/>
At 31 December 2000	<u>769,872</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2000

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000	1999
	£	£
Profit for the financial year	272,062	92,529
Opening shareholders' funds	507,810	415,281
	<u>779,872</u>	<u>507,810</u>
Closing shareholders' funds	<u>779,872</u>	<u>507,810</u>

16. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2000	1999
	£	£
Operating profit	419,360	129,664
Depreciation	95,614	64,467
Loss on sale of tangible fixed assets	1,103	3,782
(Increase)/decrease in stock	(414,980)	267,597
Increase in debtors	(3,419)	(868,954)
Increase in creditors	306,897	208,775
Exchange differences on borrowings	61,607	34,758
	<u>466,182</u>	<u>(159,911)</u>
Net cash inflow/(outflow) from operating activities	<u>466,182</u>	<u>(159,911)</u>

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

	2000	1999
	£	£
Net cash inflow from return on investment and servicing of finance		
Interest receivable	12,822	16,553
	<u>12,822</u>	<u>16,553</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(87,601)	(93,533)
Sale of tangible fixed assets	200	740
	<u>(87,401)</u>	<u>(92,793)</u>
Net cash outflow for capital expenditure and financial investment	<u>(87,401)</u>	<u>(92,793)</u>
Net cash outflow from financing		
Repayment of inter company borrowings	(210,210)	(151,016)
	<u>(210,210)</u>	<u>(151,016)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

18. ANALYSIS OF NET DEBT

	At 1 Jan 2000 £	Cash flow £	Exchange differences £	At 31 Dec 2000 £
Cash in hand and at bank	912,534	(12,476)	-	900,058
Borrowing from related company	(1,085,810)	210,210	(61,607)	(937,207)
	<u>(173,276)</u>	<u>197,734</u>	<u>(61,607)</u>	<u>(37,149)</u>

19. FINANCIAL COMMITMENTS

Capital commitments

There were no capital commitments contracted for but not provided at 31 December 2000 (1999 - £Nil).

Operating lease commitments

At 31 December 2000, the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings	
	2000	1999
	£	£
Leases which expire:		
Within two to five years	344,500	292,356
After five years	61,000	61,000
	<u>405,500</u>	<u>353,356</u>