

**FOREVER LIVING PRODUCTS (UK)  
LIMITED**

**Report and Financial Statements**

**31 December 2001**

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



**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 2001.

**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 introduction of a dedicated call centre in January this year and the gradual movement of ordering away from local centres as distributors recognised the ease of using the new facility was a feature of the evolving order processing systems which is largely driven by the demands of the network.

Distributor sponsorship in the last year has been encouraging, despite the fact that the UK economy avoided a full blown recession and as a consequence the upsurge in new numbers normally associated with such counter cyclical movements did not materialise. The 2001 core turnover figure is also further ahead than the headline suggests due to the cessation of Spanish shipments in late 2000. This trend has continued into 2002 with a near 20% increase in core product revenue resulting from higher prices, (the first increases in over five years) richer mix and slightly higher volumes for January and February. In addition, sales of new videos and CD's introducing the business opportunity have helped to generate literature sales of over £100,000 for the same two months. These sales will in turn provide more business opportunities in the future as they introduce new people.

Profitability in 2001 was affected by increased spending on Rally activities, launch of the company website and costs associated with moving the existing processor to the USA. The latter also impacted on systems as the internet connections proved less robust than anticipated. UK staff are to be commended for their loyalty and dedication to their tasks as these were exceptionally trying times and US systems personnel are also complemented for their out of hours support. The patience of our Distributors is also much appreciated especially at peak times. Internal targets for monitoring call taking will deliver improvements to the speed and quality of services from this facility.

The new products introduced in 2001 deserve particular mention, notably Forever Freedom. The market for products which combine these elements has massive potential and is perceived to be a valuable opportunity to further enhance the reputation of Aloe Vera as a drink.

For the current year, cost reductions from lower staff levels and the savings on rent and rates at some of the centres will return the company to a more satisfactory cost base. The UK Customs approval of electronic CFSP and monthly VAT returns further enhances the cash flow and internal cost controls continue to focus spending on necessity.

**DIVIDENDS AND TRANSFERS TO RESERVES**

The directors do not recommend the payment of a dividend (2000 - £nil). The results of the company are set out on page 5.

The loss for the year of £157,286 (2000 - profit of £272,062) 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:

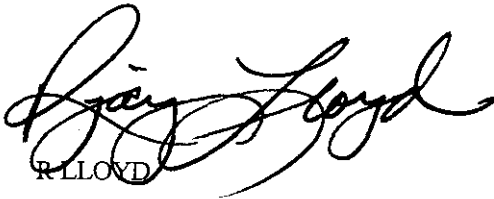
	Ordinary shares of £1 each	
	2001	2000
R G Maughan	10,000	10,000
R Lloyd	-	-

**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', is written over a printed name '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.



## **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 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

### **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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

14 August 2002

**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2001**

	Note	2001 £	2000 £
<b>TURNOVER</b>	2	15,000,012	14,607,702
Cost of sales		(4,375,709)	(3,950,761)
Gross profit		<u>10,624,303</u>	<u>10,656,941</u>
Distribution costs		(7,655,698)	(7,017,216)
Administrative expenses		(3,233,526)	(3,227,071)
Other operating income		17,461	6,706
		<u>(10,871,763)</u>	<u>(10,237,581)</u>
<b>OPERATING (LOSS)/PROFIT</b>	4	(247,460)	419,360
Interest receivable		24,909	12,822
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(222,551)	432,182
Tax on (loss)/profit on ordinary activities	5	65,265	(160,120)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>	14	<u>(157,286)</u>	<u>272,062</u>

All activities derive from continuing operations.

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

BALANCE SHEET  
31 December 2001

	Note	2001 £	2000 £
<b>FIXED ASSETS</b>			
Tangible assets	6	132,492	173,162
<b>CURRENT ASSETS</b>			
Stocks	7	1,380,472	1,639,749
Debtors	8	955,995	1,460,065
Cash at bank and in hand		<u>1,673,671</u>	<u>900,058</u>
		4,010,138	3,999,872
<b>CREDITORS: amounts falling due within one year</b>	9	<u>(2,832,948)</u>	<u>(2,556,370)</u>
<b>NET CURRENT ASSETS</b>		<u>1,177,190</u>	<u>1,443,502</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,309,682	1,616,664
<b>CREDITORS: amounts falling due after more than one year</b>	10	<u>(687,096)</u>	<u>(836,792)</u>
		<u>622,586</u>	<u>779,872</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	10,000	10,000
Profit and loss account	14	<u>612,586</u>	<u>769,872</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	15	<u>622,586</u>	<u>779,872</u>

These financial statements were approved by the Board of Directors on 1 August 2002.

Signed on behalf of the Board of Directors

  
R MAUGHAN  
Director



CASH FLOW STATEMENT  
Year ended 31 December 2001

	Note	2001 £	2000 £
Cash flow from operating activities	16	989,986	466,182
Return on investment and servicing of finance	17	24,909	12,822
Taxation		(89,796)	(193,869)
Capital expenditure and financial investment	17	(47,168)	(87,401)
Cash inflow before financing		877,931	197,734
Financing	17	(104,318)	(210,210)
Increase/(decrease) in cash in the year		773,613	(12,476)
<hr/>			
Reconciliation of net cash flow to movement in net debt	18	2001 £	2000 £
Increase/(decrease) in cash in the year		773,613	(12,476)
Cash outflow from decrease in debt and lease financing		104,318	210,210
Change in net debt resulting from cash flows		877,931	197,734
Exchange movements on borrowings		(25,981)	(61,607)
Movement in net debt in the year		851,950	136,127
Net debt at 1 January		(37,149)	(173,276)
Net debt at 31 December		814,801	(37,149)

**NOTES TO THE ACCOUNTS**

Year ended 31 December 2001

**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 taxation is provided in full on timing differences relating to pension and other post retirement benefits calculated at the rates at which it is expected that tax will arise. Deferred taxation is provided on other timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

**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 2001

## 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001	2000
	£	£
Directors' emoluments		
Other emoluments	65,151	62,103
	<u>No</u>	<u>No</u>
Average number of persons employed	<u>57</u>	<u>49</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	1,072,337	1,031,998
Social security costs	96,026	85,645
Other pension costs	63,733	57,452
	<u>1,232,096</u>	<u>1,175,095</u>

## 4. OPERATING (LOSS)/PROFIT

	2001	2000
	£	£
Operating (loss)/profit is after charging:		
Depreciation		
Owned assets	87,838	95,614
Rentals under operating leases		
Hire of plant and machinery	14,680	15,235
Other operating leases	365,883	313,703
Auditors' remuneration		
Audit services	13,000	14,500
Foreign exchange losses	181,470	441,983
	<u>1,232,096</u>	<u>1,175,095</u>

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

	2001	2000
	£	£
United Kingdom corporation tax charge at 30%		
(2000 – 30%) based on the (loss)/profit for the year	-	201,000
Deferred taxation	(65,448)	(40,880)
	<u>(65,448)</u>	<u>160,120</u>
Adjustment in respect of prior year:		
Corporation tax	183	-
	<u>(65,265)</u>	<u>160,120</u>

NOTES TO THE ACCOUNTS  
Year ended 31 December 2001

## 6. TANGIBLE FIXED ASSETS

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
<b>Cost</b>				
At 1 January 2001	173,799	224,050	58,905	456,754
Additions	14,903	32,265	-	47,168
At 31 December 2001	<u>188,702</u>	<u>256,315</u>	<u>58,905</u>	<u>503,922</u>
<b>Accumulated depreciation</b>				
At 1 January 2001	116,010	139,515	28,067	283,592
Charge for the year	38,577	38,181	11,080	87,838
At 31 December 2001	<u>154,587</u>	<u>177,696</u>	<u>39,147</u>	<u>371,430</u>
<b>Net book value</b>				
At 31 December 2001	<u>34,115</u>	<u>78,619</u>	<u>19,758</u>	<u>132,492</u>
At 31 December 2000	<u>57,789</u>	<u>84,535</u>	<u>30,838</u>	<u>173,162</u>

## 7. STOCKS

	2001 £	2000 £
Goods for resale	<u>1,380,472</u>	<u>1,639,749</u>

## 8. DEBTORS

	2001 £	2000 £
<b>Due within one year</b>		
Trade debtors	17,274	25,892
Amounts owed by related parties	440,512	722,275
Corporation tax recoverable	83,500	184
Deferred tax asset (note 12)	224,861	159,413
Other debtors	189,848	552,301
	<u>955,995</u>	<u>1,460,065</u>

NOTES TO THE ACCOUNTS  
Year ended 31 December 2001

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

	2001	2000
	£	£
Trade creditors	261,002	202,128
Corporation tax	21,903	28,200
Other taxation and social security	71,304	36,694
Amounts owed to related parties (note 11)	1,397,005	1,515,779
Accruals and deferred income	1,081,734	773,569
	<u>2,832,948</u>	<u>2,556,370</u>

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

	2001	2000
	£	£
Amounts owed to related parties (note 11)	<u>687,096</u>	<u>836,792</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 Spain, Forever Living Products Iceland, Forever Living Products France, Forever Living Products Switzerland, Forever Living Products Poland, Forever Living Products South Africa, Forever Living Products Singapore, Forever Living Products Romania, Forever Living Products Netherlands and Forever Living Products Sweden, all companies in joint control with the company.

	2001	2000
	£	£
The company owed the following amounts to companies in joint control with it.		
Aloe Vera of America Inc	1,152,917	1,415,364
Forever Living Products Asia Limited	858,870	937,207
Forever Living.com	72,314	-
	<u>2,084,101</u>	<u>2,352,571</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.

	2001	2000
	£	£
These related party balances are repayable as follows:		
In one year or less or on demand	1,397,005	1,515,779
In more than two years but not more than five years	687,096	669,434
After five years	-	167,358
	<u>2,084,101</u>	<u>2,352,571</u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2001

## 11. RELATED PARTY TRANSACTIONS (continued)

During the year the company purchased goods and services to the value of £2,970,730 (2000 - £4,508,218) 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 (2000 - £61,000) rent was charged in the year. During the year, the company sold goods to the value of £221,771 (2000 - £910,237) to companies in common ownership.

## 12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
<b>Deferred taxation</b>	
Balance at 1 January 2001	(159,413)
Provision - Current year credit	<u>(65,448)</u>
Balance at 31 December 2001 (Note 8)	<u><u>(224,861)</u></u>

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

	Provided 2001 £	Provided 2000 £	Not Provided 2001 £	Not provided 2000 £
Capital allowances in advance of depreciation	(15,258)	(6,032)	-	-
Other timing differences	<u>(209,603)</u>	<u>(153,381)</u>	-	-
	<u><u>(224,861)</u></u>	<u><u>(159,413)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## 13. CALLED UP SHARE CAPITAL

	2001 £	2000 £
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 2001	769,872
Loss for the year	<u>(157,286)</u>
At 31 December 2001	<u><u>612,586</u></u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2001

## 15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
(Loss)/profit for the financial year	(157,286)	272,062
Opening shareholders' funds	<u>779,872</u>	<u>507,810</u>
Closing shareholders' funds	<u><u>622,586</u></u>	<u><u>779,872</u></u>

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

	2001	2000
	£	£
Operating (loss)/profit	(247,460)	419,360
Depreciation	87,838	95,614
Loss on sale of tangible fixed assets	-	1,103
Decrease/(increase) in stock	259,277	(414,980)
Decrease/(increase) in debtors	652,834	(3,419)
Increase in creditors	211,516	306,897
Exchange differences on borrowings	<u>25,981</u>	<u>61,607</u>
Net cash inflow from operating activities	<u><u>989,986</u></u>	<u><u>466,182</u></u>

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

	2001	2000
	£	£
<b>Net cash inflow from return on investment and servicing of finance</b>		
Interest receivable	<u>24,909</u>	<u>12,822</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(47,168)	(87,601)
Sale of tangible fixed assets	<u>-</u>	<u>200</u>
<b>Net cash outflow for capital expenditure and financial investment</b>	<u><u>(47,168)</u></u>	<u><u>(87,401)</u></u>
<b>Net cash outflow from financing</b>		
Repayment of inter company borrowings	<u><u>(104,318)</u></u>	<u><u>(210,210)</u></u>

NOTES TO THE ACCOUNTS  
Year ended 31 December 2001

## 18. ANALYSIS OF NET DEBT

	At 1 Jan 2001 £	Cash flow £	Exchange differences £	At 31 Dec 2001 £
Cash in hand and at bank	900,058	773,613	-	1,673,671
Borrowing from related company	(937,207)	104,318	(25,981)	(858,870)
	<u>(37,149)</u>	<u>877,931</u>	<u>(25,981)</u>	<u>814,801</u>

## 19. FINANCIAL COMMITMENTS

**Capital commitments**

There were no capital commitments contracted for but not provided at 31 December 2001 (2000 - £Nil).

**Operating lease commitments**

At 31 December 2001, the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings	
	2001 £	2000 £
Leases which expire:		
Within one year	42,500	-
Within two to five years	250,000	344,500
After five years	61,000	61,000
	<u>353,500</u>	<u>405,500</u>