



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

Report and Financial Statements

31 December 1997

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



**REPORT AND FINANCIAL STATEMENTS 1997**

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

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 company concluded the fifth year of operation under the direction of Dusty Greene and his management team with a milestone achievement of sales just under 100,000 cases of products. Core product turnover in 1997 exceeded the previous twelve months by some 26% and this growth has accelerated in to the first four months of 1998 with budgeted growth of 31% surpassed by actual sales to date.

The addition of two all new products to the UK, Forever Kidds multi-vitamins and Forever Gingko Plus, at the well attended National Rally in Cardiff, Wales in November 1997 broadens the appeal of the core range of health and beauty products. In addition, the focused packaging of Mini Touch of Forever boxes gives both new and existing distributors another exciting tool to develop their businesses.

The Company moved its warehousing operations to a rented site in Leamington Spa, which will provide more space for future growth and will ease the congestion of loading and despatching at peak times encountered at the Wellesbourne site. Elsewhere the investment in the Head Office facilities at Longbridge Manor continues and with decorating and deployment of furniture ongoing, the prestige location looks very impressive, combining a busy office with a welcoming venue.

Looking to the future, we see a number of Pan-European issues, which present the opportunity for the family of FLP companies to work together in the EU, exchange knowledge and benefits and further grow the profitability of the group.

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 £614,007 (1996 - £701,207) 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	
	1997	1996
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 black ink, 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. 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 1997 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

18 August 1998



PROFIT AND LOSS ACCOUNT
Year ended 31 December 1997

	Note	1997 £	1996 £
TURNOVER	2	11,307,082	9,014,700
Cost of sales		<u>(2,570,371)</u>	<u>(2,349,059)</u>
Gross profit		<u>8,736,711</u>	<u>6,665,641</u>
Distribution costs		(6,589,560)	(5,121,419)
Administrative expenses		(1,310,580)	(739,343)
Other operating income		<u>60,502</u>	<u>34,468</u>
		<u>(7,839,638)</u>	<u>(5,826,294)</u>
OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2, 4	897,072	839,347
Tax on profit on ordinary activities	5	<u>(283,065)</u>	<u>(138,140)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	15	<u>614,007</u>	<u>701,207</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 1997

	Note	1997	1996
		£	£
FIXED ASSETS			
Tangible assets	6	167,990	99,597
CURRENT ASSETS			
Stocks	7	1,269,810	795,949
Debtors	8	248,667	531,458
Cash at bank and in hand		1,269,035	318,136
		<u>2,787,512</u>	<u>1,645,543</u>
CREDITORS: amounts falling due within one year	9	<u>(1,870,750)</u>	<u>(1,177,585)</u>
NET CURRENT ASSETS		<u>916,762</u>	<u>467,958</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,084,752	567,555
CREDITORS: amounts falling due after more than one year	10	(1,215,510)	(1,314,790)
PROVISIONS FOR LIABILITIES AND CHARGES	12	<u>(5,515)</u>	<u>(3,045)</u>
		<u>(136,273)</u>	<u>(750,280)</u>
CAPITAL AND RESERVES			
Called up share capital	13	10,000	10,000
Profit and loss account	14	<u>(146,273)</u>	<u>(760,280)</u>
EQUITY SHAREHOLDERS' DEFICIT	15	<u>(136,273)</u>	<u>(750,280)</u>

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

17th August 1998


R MAUGHAN
Director



CASH FLOW STATEMENT
Year ended 31 December 1997

	Note	1997 £	1996 £
Cash flow from operating activities	16	1,341,698	183,978
Taxation		(110,700)	-
Capital expenditure and financial investment	17	(129,949)	(67,578)
Cash inflow before financing		<u>1,101,049</u>	<u>116,400</u>
Financing	17	(150,150)	(6,701)
Increase in cash in the year		<u><u>950,899</u></u>	<u><u>109,699</u></u>

	Note	1997 £	1996 £
Reconciliation of net cash flow to movement in net debt	18		
Increase in cash in the year		950,899	109,699
Cash inflow from increase in debt and lease financing		<u>150,150</u>	<u>6,701</u>
Change in net debt resulting from cash flows		1,101,049	116,400
Exchange movements on borrowings		(56,721)	149,324
Movement in net debt in the year		<u>1,044,328</u>	<u>265,724</u>
Net debt at 1 January		<u>(1,142,742)</u>	<u>(1,408,466)</u>
Net debt at 31 December		<u><u>(98,414)</u></u>	<u><u>(1,142,742)</u></u>

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1997**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.

Basis of preparation

In order to fund its working capital requirements the company is reliant upon loans from other companies in common ownership with it (as described in note 11). The directors of these companies have indicated their continuing intention to support the working capital requirement of the company and the directors have, therefore, adopted the going concern basis in the preparation of these accounts.

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.

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 1997

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1997 £	1996 £
Directors' emoluments		
Other emoluments	21,116	16,534
	<u>No.</u>	<u>No.</u>
Average number of persons employed	<u>23</u>	<u>19</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	429,432	306,036
Social security costs	39,620	29,230
Other pension costs	11,416	7,534
	<u>480,468</u>	<u>342,800</u>

4. OPERATING PROFIT

	1997 £	1996 £
Operating profit is after charging / (crediting):		
Depreciation		
Owned assets	61,556	33,199
Rentals under operating leases		
Hire of plant and machinery	1,626	2,604
Other operating leases	33,553	62,750
Auditors' remuneration		
Audit services	13,500	12,000
Foreign exchange (gains) / losses	<u>113,269</u>	<u>(114,863)</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £	1996 £
United Kingdom corporation tax charge at 31.5% (1996 - 33%) based on the profit for the year	304,990	135,095
Deferred taxation	<u>(21,925)</u>	<u>3,045</u>
	283,065	138,140
Adjustment in respect of prior year - corporation tax	(24,395)	-
- deferred tax	24,395	-
	<u>283,065</u>	<u>138,140</u>

The tax charge on the profit for 1996 was reduced by the utilisation of losses brought forward.



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

6. TANGIBLE FIXED ASSETS

	Computers £	Fittings and office equipment £	Motor vehicles £	Total £
Cost				
At 1 January 1997	65,117	60,402	44,710	170,229
Additions	40,506	89,443	-	129,949
At 31 December 1997	<u>105,623</u>	<u>149,845</u>	<u>44,710</u>	<u>300,178</u>
Accumulated depreciation				
At 1 January 1997	27,781	27,446	15,405	70,632
Charge for the year	23,628	30,600	7,327	61,556
At 31 December 1997	<u>51,409</u>	<u>58,046</u>	<u>22,732</u>	<u>132,188</u>
Net book value				
At 31 December 1997	<u>54,214</u>	<u>91,799</u>	<u>21,978</u>	<u>167,990</u>
At 31 December 1996	<u>37,336</u>	<u>32,956</u>	<u>29,305</u>	<u>99,597</u>

7. STOCKS

	1997 £	1996 £
Goods for resale	<u>1,269,810</u>	<u>795,949</u>

8. DEBTORS

	1997 £	1996 £
Due within one year		
Trade debtors	109,906	471,872
Amounts owed by related parties	50,907	-
Other debtors	87,854	59,586
	<u>248,667</u>	<u>531,458</u>

At 31 December 1997, there was a loan outstanding of £51,052 (US\$ 84,000) (1996 - £49,085 (US\$ 84,000)) payable by an officer of the company.



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Trade creditors	119,731	59,873
Corporation tax	304,990	135,095
Other taxation and social security	208,033	180,801
Amounts owed to related parties (note 11)	394,283	155,404
Accruals and deferred income	843,713	646,412
	<u>1,870,750</u>	<u>1,177,585</u>

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

	1997 £	1996 £
Amounts owed to related parties (note 11)	<u>1,215,510</u>	<u>1,314,790</u>

11. RELATED PARTY TRANSACTIONS

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

The company owed the following amounts to companies in joint control with it.

	1997 £	1996 £
Aloe Vera of America Inc	242,344	9,316
Forever Living Products Asia Limited	1,367,449	1,460,878
	<u>1,609,793</u>	<u>1,470,194</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:

	1997 £	1996 £
Within one year	394,283	155,404
Within one to two years	-	146,088
Within two to five years	455,816	438,264
After five years	759,694	730,438
	<u>1,609,793</u>	<u>1,470,194</u>

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

During the year the company purchased goods and services to the value of £2,775,571 (1996 - £1,969,269) 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 no rent was charged in the year.



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation	
Balance at 1 January 1997	3,045
Provision - current year	(21,925)
- prior year	24,395
	<u>5,515</u>
Balance at 31 December 1997	<u><u>5,515</u></u>

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

	Provided 1997 £	Provided 1996 £	Not provided 1997 £	Not provided 1996 £
Capital allowances in advance of depreciation	<u>5,515</u>	<u>3,045</u>	<u>-</u>	<u>-</u>

13. CALLED UP SHARE CAPITAL

	1997 £	1996 £
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 1997	(760,280)
Profit for the year	614,007
	<u>(146,273)</u>
At 31 December 1997	<u><u>(146,273)</u></u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year	614,007	701,207
Opening shareholders' funds	(750,280)	(1,451,487)
	<u>(136,273)</u>	<u>(750,280)</u>
Closing shareholders' funds	<u><u>(136,273)</u></u>	<u><u>(750,280)</u></u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

16. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	1997 £	1996 £
Operating profit	897,072	839,347
Depreciation	61,556	33,199
Loss on sale of tangible fixed assets	-	2,537
(Increase) in stock	(473,861)	(68,923)
Decrease/(increase) in debtors	282,791	(164,031)
Increase/(decrease) in creditors	517,419	(308,827)
Exchange differences on borrowings	56,721	(149,324)
Net cash inflow from operating activities	<u>1,341,698</u>	<u>183,978</u>

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

	1997 £	1996 £
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(129,949)	(68,078)
Sale of tangible fixed assets	-	500
Net cash outflow for capital expenditure and financial investment	<u>(129,949)</u>	<u>(67,578)</u>
Financing		
Repayment of intercompany borrowings	(150,150)	-
Capital element of finance lease rental payments	-	(6,701)
Net cash inflow from financing	<u>(150,150)</u>	<u>(6,701)</u>

18. ANALYSIS OF NET DEBT

	At 1 Jan 1997 £	Cash flow £	Exchange differences £	At 31 Dec 1997 £
Cash in hand and at bank	318,136	950,899	-	1,269,035
Borrowing from group company	(1,460,878)	150,150	(56,721)	(1,367,449)
	<u>(1,142,742)</u>	<u>1,101,049</u>	<u>(56,721)</u>	<u>(98,414)</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1997

19. FINANCIAL COMMITMENTS

	1997 £	1996 £
Capital commitments		
Contracted for but not provided	-	-

Operating lease commitments

At 31 December 1997, the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings 1997 £	Other 1997 £	Land and buildings 1996 £	Other 1996 £
Leases which expire:				
Within one year	-	635	10,224	86
Within two to five years	-	-	-	1,540
After five years	61,000	-	-	-
	<u>61,000</u>	<u>635</u>	<u>10,224</u>	<u>1,626</u>



ADDITIONAL INFORMATION

The additional information on page 16 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.



TRADING ACCOUNT
Year ended 31 December 1997

	1997	1996
	£	£
TURNOVER	11,307,082	9,014,700
Cost of sales		
Opening stock	795,949	727,026
Purchases, freight and duty	3,044,232	2,417,982
Closing stock	(1,269,810)	(795,949)
	<u>2,570,371</u>	<u>2,349,059</u>
GROSS PROFIT	8,736,711	6,665,641
Distribution costs		
Bonuses	5,854,371	4,650,094
Motor, travel and entertaining	89,822	63,419
Printing and publicity	613,230	387,237
Warehouse and delivery	32,137	20,669
	<u>6,589,560</u>	<u>5,121,419</u>
Administrative expenses		
Wages, salaries and employment costs	480,468	350,630
Repairs and maintenance	93,274	68,741
Telephones	24,331	21,906
Heat, light and power	12,012	10,556
Rent, rates and insurances	86,565	71,890
Bank charges	154,559	97,315
Legal and professional fees	174,433	64,277
Audit and accountancy	21,605	18,956
Management expenses	64,575	77,063
Depreciation	61,556	33,199
Loss on disposal	-	2,537
(Gain)/loss on exchange	113,269	(114,863)
Sundry expenses	23,933	37,136
	<u>1,310,580</u>	<u>739,343</u>
Other operating income	60,502	34,468
OPERATING PROFIT	<u>897,072</u>	<u>839,347</u>