



# NeutraHealth plc

Investing in wellbeing  
Report and Accounts  
2007



# Directors, Officers and Professional Advisers

## Directors

|              |                               |
|--------------|-------------------------------|
| S M Gatto    | <i>Non-Executive Chairman</i> |
| M H Toxvaerd | <i>Chief Executive</i>        |
| R D Hilton   | <i>Finance Director</i>       |
| J S McEuen   | <i>Managing Director</i>      |
| R J Stagg    | <i>Managing Director</i>      |
| A B M Good   | <i>Non-Executive Director</i> |
| Sir G K Noon | <i>Non-Executive Director</i> |
| J K Saxena   | <i>Non-Executive Director</i> |
| Z Hydari     | <i>Non-Executive Director</i> |

## Company Secretary

R D Hilton FCA

## Registered office

180 Lifford Lane  
Kings Norton  
Birmingham  
B30 3NU

## Principal addresses

|   |  |
|---|--|
| 180 Lifford Lane<br>Kings Norton<br>Birmingham<br>B30 3NU | The Laurels<br>Cribbs Causeway Centre<br>Bristol<br>BS10 7TT |
|---|--|

## Bankers

KBC Bank NV  
111 Old Broad Street  
London  
EC2N 1BR

## Brokers and nominated advisers

Genkos Securities plc  
6 7 8 Tokenhouse Yard  
London  
EC2R 7AS

## Solicitors

Pinsent Masons  
CityPoint  
1 Ropemaker Street  
London  
EC2Y 9AH

## Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Auditors

Baker Tilly UK Audit LLP  
2 Bloomsbury Street  
London  
WC1B 3ST

|    |  |    |  |
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**“NeutraHealth has had a very successful year.”**

### **Introduction**

Neutrahealth, now having completed its third year as an AIM listed company, has continued on its strategic path as a consolidator in the fragmented nutraceuticals sector and has had a very successful year, with profit in line with expectations, and with diluted earnings per share growth of 86%.

The acquisitions made since start-up have bedded in well and the actions taken during the period have set a course which we believe will maximise the synergies of our group companies for this year and as a result the Board believes that the current business will deliver good growth in the year ahead. Furthermore, management continues to research and pursue acquisition targets which should strengthen the Group in its existing market segments and take us into new sectors of the nutraceutical market. Our network of industry contacts is now very well developed, such that most potential transactions in this sector are likely to be offered to us.

### **Significant Events**

It has been a busy year on many fronts. In February 2007 we completed the acquisition of Brunel Healthcare Limited, based in Bristol, for £4 million in cash, assuming debt of £1 million. The incumbent management have continued to run the business very successfully and Ron Stagg, Managing Director of Brunel, joined the Board in February 2007. The trading performance in 2007 more than confirmed our expectations for the future to the extent that the Board guaranteed the earn-out put in place at the time of acquisition as performance was exceeding the set criteria.

In July 2007 we announced the acquisition of Health Products for Life Limited (“HPL”) from Patrick Holford and the simultaneous 10 year licensing deal to co-brand a new range of supplements which would carry both the Holford and BioCare names. Patrick Holford also became Head of Science and Education for BioCare. The alliance with Patrick Holford is an important development for BioCare given that he is a leading figure in the industry with wide recognition amongst informed consumers.

In August 2007 shareholders approved the issue of 35,197,026 shares to Elder Pharmaceuticals Limited at a price of 16 pence per share, resulting in a 20% holding, and the appointment of Jagdish Saxena to the Board. Jagdish is the founder and chairman of Elder which is a listed pharmaceutical company based in Bombay with considerable experience of the development, manufacture and marketing of both medicines and supplements with market leading products in India. The Board believes that many opportunities will emanate from this alliance in the future. Immediately following the approval of the Elder investment, Zulfi Hydari was appointed to the Board as a non-executive director. Zulfi is managing Director of HBG Holdings, a Dubai based private equity firm. His experience of M&A and fundraising will be of great assistance to the company.

### **Outlook**

Looking ahead to this year, once again, our agenda is largely unchanged. Our current businesses are in good shape and we are confident of securing another strategic acquisition before too long. The Board and its support are up to full strength and the involvement of Elder gives us many opportunities. Our employees have witnessed many changes over recent months and have done a fantastic job in developing the Group for which the Board is truly appreciative. The Board will continue with our stated strategy and looks forward to the future with confidence.

A handwritten signature in green ink, appearing to read 'Martin Gatto', written over a light blue horizontal line.

**Martin Gatto**  
Chairman

4 March 2008



**“In 2008 we expect to build on the success of last year.”**

### Overview

This is our third annual report, and we are pleased once again to report that we have delivered on our promises to the market, reporting a diluted EPS growth of 86%.

This was a crucial year for the development of NeutraHealth, and our achievement sees us firmly on the path to further success ahead. The EPS uplift was driven by organic growth and acquisitions leading to a 148% increase in sales and a 106% increase in PBT making us the most profitable AIM company in our sector today. We firmly believe that our shareholders should be rewarded with a share value that reflects this success. We continue to concentrate on doing the right things, and believe that continuing to do so will eventually lead to recognition of the value we are creating.

### Business Strategy

Our strategy is to build a group of companies within the nutraceutical market, initially focused on the vitamins, minerals and supplements (VMS) sector, delivering growth through organic expansion and through strategic acquisitions.

We operate significant businesses within each of the distinct sales channels within our market – practitioners, independent retailers, multiple retailers, and direct to consumers.

Our objective is to attain a business size that will raise our profile in the capital markets, and will make us a more significant player within our trading sector and therefore better able to influence the market.

### Acquisitions

2007 began with the acquisition of Brunel Healthcare, a Bristol based supplier of private label and branded VMS and over-the-counter pharmaceuticals to significant high street retailers such as Boots, Sainsbury and Tesco. This acquisition has been very successful. The business itself has performed very well since joining the Group. and Ron Stagg, Brunel’s managing director and majority owner of Brunel prior to NeutraHealth’s acquisition, has made a significant contribution to the Group through his industry knowledge and contacts.

In July 2007 we acquired a direct to consumer company “Health Products for Life” from Patrick Holford, one of Britain’s leading nutritional experts. This dedicated internet offering attracts a wide range of consumers who are interested in following a supplement program as part of a healthier lifestyle. The web site is in the process of being redesigned to improve the customer experience. The acquisition also saw us agree a licensing arrangement with Patrick Holford that has resulted in the launch of a product range, consisting of 20 products that are co-branded Patrick Holford and BioCare. This product range is aimed at the independent retail and direct to consumer markets, and builds on the research of Patrick Holford.

We have been very active in progressing acquisitions throughout the year, with a number not being taken through to completion. After the abortive costs incurred in 2006, we were able to structure our acquisition processes to curtail the risks of losses should an acquisition not proceed, with the result that there have been minimal cost write offs incurred this year for processes that did not lead to an acquisition.

### Elder Pharmaceuticals

In August 2007 we issued shares to Elder Pharmaceuticals Limited at 16p representing a 36% premium to market price on the day of announcement. We met Elder Pharmaceuticals during our search for potential suppliers for our Brunel products. There was a considerable amount of mutual respect, and Elder sought an investment in NeutraHealth.

We continuously have a good pipeline of acquisition prospects that require funding. As we are confident in our ability to raise funds from our existing shareholders close to our market price, we could only recommend such an investment, and the subsequent dilution, to our shareholders if it was at a higher share price than we were able to achieve ourselves and also at a price we felt represented a fair value for our expected achievements in the year.

As part of the investment agreement Elder holds warrants giving them subscription rights to maintain their 20% holding in the event of future equity issues until November 2008.

We were also pleased to welcome Mr Jagdish Saxena, the founder and Chairman of Elder Pharmaceutical, to the Board as part of the transaction.

Elder continue to be very supportive of existing management, and the transaction has already resulted in a number of export leads that are expected to deliver benefit in the future.

## **Review of business**

### *Practitioner channel*

The practitioner channel was our entry into the VMS sector through the acquisition of the market leading BioCare brand in 2005 and the subsequent bolt on acquisition of Nutrigold in February 2007. These companies continue to uphold their reputation for product excellence.

The practitioner sector of the market has not grown at the rate we originally expected, experiencing some challenges from the internet as a competing source of information to consumers. While this has led to the number of consumers being referred remaining static, the brands themselves have performed well. Informed consumers look for the best products available, and the BioCare brand is widely recognised as first class.

### *Independent Retailers*

We service the independent retailers through the BioCare brand and from the end of 2007 with the co-branded Patrick Holford/BioCare range. Independent retailers on the high street are faced with a number of threats. These are the steady rise in dominance of the bigger retailers such as Boots and the supermarkets and the decline of the high street as the major source for products due to the internet and out of town shopping destinations.

Some of these independent retailers are responding with innovative designs, products and services, and it is these retailers who are seeing growth within their businesses. This channel will remain important to the Group as it develops into more of a niche offering.

### *Multiple Retailers*

We have a strong positioning in this channel through the private label business offered by Brunel. We also have a number of branded products, including the Vertese brand.

At the end of 2006/start of 2007 we launched two retail brands: our own Travelguard range of products, and a range of Champneys branded supplements.

The Travelguard range has not performed as well as had been expected. Our research now indicates that the proposition of taking supplements as prevention for travel related issues is too much of a change in consumer behaviour to be overcome without significant marketing. Our analysis concluded that the marketing resource necessary would generate a better return applied elsewhere across the Group. The Travelguard range is still in distribution, and this will remain under review.

The Champneys range was launched in March 2007, and was very well received by the market. Negotiations with multiple retailers took longer than expected, resulting in listings in the latter part of the year.

The Vertese range, acquired with Brunel, has performed well through the year achieving further increases in distribution. Two new products containing the ingredient CoQ10 have been especially well received. We have partnered with Kaneka, a large Japanese manufacturer producing the most bio-available CoQ10 raw material, in developing a formulation and product that we expect to achieve significant sales growth with in 2008. We have exclusive rights for the use of Kaneka CoQ10 in the UK market.

### *Direct to consumer*

The direct to consumer market has shown good growth over the last few years as consumers increasingly turn to the internet for advice and to purchase goods. Our

position in this channel at the start of the year was only through the BioCare and Nutrigold websites, designed as part of the overall product offering rather than dedicated direct to consumer sites.

Our acquisition of Health Products for Life in July 2007 is our first dedicated business in this important channel. The web design is being improved as part of an ongoing project, and the strategic positioning of the business, maintaining a close relationship with the consumer information website, 100% health, makes it a sound business with the potential for significant future growth as the proposition is updated.

#### *Exports*

One of our early successes with BioCare in 2006 was growth in export sales, albeit it from a small base. We have continued to focus on this area as our branded portfolio has expanded, with BioCare being the vanguard of the range due to the strong international reputation it already has for quality and efficacy.

The lead time for export countries to start being large accounts is lengthy, with the initial hurdle of regulations and the subsequent brand building necessary in the new market. We have in place a significant pipeline of export customers that we expect will grow through 2008. The Middle East has been a particularly successful source of new business.

### **Principal Risks and Uncertainties**

All businesses face a range of risks and uncertainties, being subject to risk factors from internal and external sources. NeutraHealth undertakes a regular risk assessment within a framework encompassing a range of risk factors: operational, financial, strategic, environmental, political, social, economic, and technological. The likelihood and significance of risk factors are considered when putting in place risk management procedures to ensure risk mitigation.

The following are considered to be the key risks facing the Group.

#### *Market Conditions*

We are operating in a market that is undergoing significant changes. There are regulatory, social and demographic factors driving change and there is an increasing focus on nutrition in society. At the same time, the world economy is at an uncertain point.

It is essential that we monitor the environment in which we operate, and ensure that our businesses continue to deliver customer satisfaction as demands move on. We mitigate the risks through our product innovation, continual dialogue with our customers, and active participation in industry trade groups.

#### *Access to Finance*

We reported last year that we viewed access to finance as a principal risk. The challenges this year are more significant. We remain an acquisitive company with an objective of increasing our size to become more visible for investors and to be more dominant in our industry. The former requires a higher market capitalisation through either a higher share price, increased equity, or a combination of both.

At the time of writing, our share price is lower than our float price in 2005, despite delivery of impressive year on year EPS growth. This has the effect of reducing our market capitalisation, plus making it very expensive to issue equity to fund acquisitions. All this is combined with turmoil in the world financial markets and the well publicised credit crunch. Although we expect that our past performance will present us with opportunities for raising finance that may not be available to other companies, we expect that while there is restricted access to debt and equity funding due to market conditions, our ability to make significant acquisitions may be restricted.

### **Key Performance Indicators**

NeutraHealth uses a number of key performance indicators (KPIs) at Group level to assess performance and progress against strategic objectives. The most important of these KPIs are sales growth, operating profit margin and return on capital employed. These KPIs are discussed below in the financial review.

## Financial Review

*Turnover* 2007: £21.3m 2006: £8.6m

Turnover increased significantly following the acquisition of Brunel early in the year. Our like for like sales were positive.

During the year, there was a lot of focus within the Group on development: new brands were launched, Brunel and Health products for Life were acquired and integrated into the Group. In 2008 the emphasis is on increasing sales penetration in our UK and export markets. We have had several successes on that front in the early part of 2008.

*PBIT before non-recurring items* 2007: £2.4m 2006: £1.4m

We have seen a significant increase in operating profit in 2007, with the success of Brunel following acquisition making a contribution to the increase. Furthermore, there were a further £0.1m of non-cash charges in 2007 arising from the accounting treatments of acquisitions that could be argued distort the true underlying profitability. It should also be considered that in 2006 there were charges of £0.3m for non-recurring items that reduced the above figure. This is reflected in the cash flow increase (see below).

The operating margin declined to 13.1% from 16.8% due to the addition of the Brunel business. As a mainly private label business, Brunel's margins are lower than the other brand focused companies within the Group. These lower margins were offset by the dilution in company overheads, which will continue as the Group expands.

*Cash generated from operations* 2007: £2.5m 2006: £0.9m

The Group continues to be cash generative, with cashflow generated from operations being only slightly lower than EBITDA. The working capital movements of Brunel can alter by a material amount on a regular basis due to the nature of trading with the multiples, and manufacturing the necessary stock runs.

*Adjusted EPS* 2007: 1.0p 2006: 0.5p

*Diluted EPS* 2007: 0.8p 2006: 0.4p

We are reporting 88% growth in adjusted EPS and 86% growth in diluted EPS this year, which is a tremendous achievement. Without the significant increase in the number of shares this year due to the issue of share to Elder Pharmaceutical, the growth would have been higher. The Elder investment was used to significantly reduce existing debt, creating headroom in debt facilities that will allow future mid-size acquisitions to be financed through debt, and enhance future EPS.

We have chosen to report adjusted EPS on an ongoing basis to eliminate the impact of certain non-cash items that do not reflect the underlying performance of the business. These charges include share option charges, amortisation of separately identifiable intangible assets arising on acquisition, and the deferred tax charge/credit arising from changes in the share price and the effect this has on outstanding share options.

*Return on Capital Employed* 2007: 10.4% 2006: 8.3%

This result is another indication that we have had a successful year in generating value for shareholders.

### Capital Structure

At the year end the company had net debt of £1.0m, excluding finance leases. The acquisition of Brunel Healthcare in 2007 was financed entirely by debt, and this has been offset to a considerable degree by the investment by Elder Pharmaceuticals.

This net debt position gives us headroom to make further acquisition funded entirely by debt. This may be necessary depending on the level of our share price.

The Group has not declared a dividend for 2007 as we have previously stated our intention to use available cash flow to finance acquisitions. This policy has not changed, and we do not expect it to change while we are pursuing current acquisition opportunities.

### **Outlook**

In 2008 we expect to build on the success of last year and concentrate on continually reinforcing our strong businesses in the market. There are a number of areas where we expect growth to come from.

BioCare is firmly focused on supporting its market leading position with innovative product and service ideas, and on promoting the Patrick Holford range of products. BioCare will also pursue further export opportunities, as we believe this is the channel that offers the maximum profitable growth for the company.

Brunel will continue to focus on providing excellent service to its customers, and in providing those customers with products that are popular with end consumers, such as CoQ10. This objective will be helped by the acquisition of herbal licenses and the Gerard House and Galloway brands in early February 2008 that will allow an extended portfolio of either private label or branded products to be offered to retailers.

In last years annual report, we said that we would review the pharmaceutical part of the business we acquired with Brunel. That review has concluded that there are interesting developments within this sector arising through the UK government's drive for self medication to relieve pressure on the NHS. As part of our ongoing strategy will be pursuing acquisition opportunities within the "over the counter" sector. Doing so allows us to create further synergies in manufacturing and relationship management.

**Michael Toxvaerd**

Chief Executive  
4 March 2008

**Robin Hilton**

Finance Director



**The Directors of NeutraHealth are:**

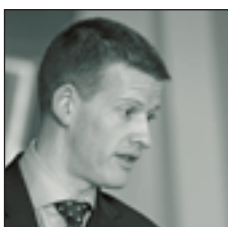
**Martin Gatto** (*Non-Executive Chairman*)

Martin has considerable experience as Chief Financial Officer of a number of large public companies, most recently implementing successful turnaround strategies at British Energy Plc, Midland Electricity plc and Somerfield plc. Prior to that he gained international experience as Chief Financial Officer at Hilton International Co where he was also responsible for business development and property. He is a graduate of Brunel University and is a Fellow of the Chartered Institute of Management Accountants.



**Michael Toxvaerd** (*Chief Executive*)

Michael has led high growth SME businesses within a variety of sectors. He was most recently CEO of Danish Electronics Group SEM Holding A/S during a three year period of growth rates, rapid expansion and industry consolidation. He is also a non-executive director of Danish construction company Eske Huse A/S. Michael has an MBA from Cranfield School of Management, part of Cranfield University.



**Robin Hilton** (*Finance Director*)

Robin is a chartered accountant with a listed company background and experience in top tier accounting firms. Robin trained as an accountant with Andersen before joining The Health Clinic as Group Financial Controller, assisting in the Group's IPO in July 2000. He moved to Australia in 2002 to join Ernst & Young in business development for two years. He was awarded the prestigious Odgers Prize from Cranfield School of Management, completing an MBA in Summer 2005.



**James McEuen** (*Managing Director*)

James is an experienced executive, with previous roles as a Country General Manager and Commercial and Marketing Director within healthcare businesses, high technology and fast moving consumer goods environments, including Johnson & Johnson and Unilever. James was appointed to the NeutraHealth Board in 2006 following his success in implementing improvements across the BioCare business.



**Ron Stagg** (*Managing Director*)

Ron has over 30 years experience working within the consumer healthcare market. He has held senior management positions at several national and multi-national companies during this time. He was a founder member of Brunel Healthcare in 1982, and became Managing Director in 1992. Ron was appointed to the Board shortly after NeutraHealth's acquisition of Brunel Healthcare in January 2007.



**Anthony Good** (*Non-Executive Director*)

Anthony founded the Good Relations Group, which was the first public relations company to be quoted on the London Stock Exchange. He has more recently operated as an independent consultant to Marks & Spencer plc and Scottish & Newcastle plc and was previously a director of Gowrings plc. He holds several non-executive directorships and is currently Chairman of Cox & Kings Limited and Cox & Kings India (Private) Limited.



**Sir Gulam Noon, MBE** (*Non-Executive Director*)

Sir Gulam is the founder and Chairman of Noon Products Limited, one of the largest suppliers of Indian food products into Britain's major supermarkets including Sainsburys, Waitrose, Morrisons and Safeway. He currently holds a number of high profile positions in industry and commerce. Sir Gulam is also Chairman and Managing Director of Bombay Halwa Ltd, suppliers of indian sweets and aviation catering. He is a board member and former President of the London Chamber of Commerce and Industry. He was the founder Chairman of the Asian Business Association and is a board member of Transport for London. Sir Gulam was awarded the 'Best Business Leader' Award at the SAGE Business Awards in 2003.



**Jagdish Saxena** (*Non-Executive Director*)

Jagdish has been the Managing Director of Elder Pharmaceuticals Ltd since 1988, and is the founder and current Chairman. Elder Pharmaceuticals is a significant shareholder in NeutraHealth. Jagdish has 40 years experience within pharmaceuticals, having had responsibility in his career for all aspects of production, sales, marketing, and new product development



**Zulfi Hydari** (*Non-Executive Director*)

Zulfi is an established business executive, investor and entrepreneur with significant hands-on experience in acquiring and building profitable businesses. He has over 13 years business experience in venture capital, mergers and acquisitions and business turnarounds, much of it in the emerging markets. Zulfi is currently Managing Director of HBG Holdings, a Dubai-based private equity and alternative asset management group with over \$200 million under management.

The directors have pleasure in presenting their report and accounts for the year ended 31 December 2007.

### Principal activities

The Company's principal activity is to act as a holding company. The principal activity of the Group is the sale and distribution of nutraceutical products. The company is listed on the London Stock Exchange's Alternative Investment Market (AIM) and is incorporated and domiciled in England.

### Review of the business

A review of the business, future developments and analysis of principal risks and uncertainties is included in the Chairman's Statement and Business Review set out on page 1 and pages 2 to 6 respectively.

### Results and dividend

The profit after taxation for the year was £1,227,000 (2006: £590,000).

There is no dividend for the year.

### Directors and directors' interests

The directors who served throughout the year and their interests (including the interests of connected parties) at the year end in the share capital of the Company were as follows:

|  | Ordinary shares of<br>10 pence each<br>2007<br>Number | Ordinary shares of<br>10 pence each<br>2006<br>Number |
|--|---|---|
| <b>Executive directors</b>                   |   |   |
| M H Toxvaerd                                 | 100,001   | 1   |
| R D Hilton                                   | 25,000  | 25,000  |
| J S McEuen                                   | 102,500   | –   |
| R J Stagg: <i>appointed 20 February 2007</i> | 1,000,000   | –   |
| <b>Non-executive directors</b>               |   |   |
| S M Gatto                                    | 2,428,571   | 2,428,571   |
| A B M Good                                   | 3,952,380   | 3,952,380   |
| R A Hill: <i>resigned 20 February 2007</i>   | 197,619   | 197,619   |
| Sir G K Noon                                 | 4,112,134   | 4,112,134   |
| J K Saxena: <i>appointed 20 August 2007</i>  | –   | –   |
| Z Hydari: <i>appointed 20 August 2007</i>    | –   | –   |

The shareholdings are all beneficial and have not changed between 31 December 2007 and 4 March 2008.

Mr J Saxena is Chairman of Elder Pharmaceutical Limited, which at 31 December 2007 owned 37,101,786 shares in the Company.

Directors' interests in options to purchase shares in the Company are disclosed in the Report on Directors' Remuneration on pages 12 and 13.

None of the directors had an interest in a contract of significance to which the Company was a party during the year. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors.

None of the directors have any disclosable interests in any other group company.

### Company policy on the payment of creditors

The company acts as a holding company. As a non-trading company, it has no defined payment policy. The policy for Group trading companies is that payments are made within the terms established with suppliers, provided that the supplier is also complying with all relevant terms and conditions. The number of days' purchases outstanding at 31 December 2007 is 84 (2006: 35). The increase since last year reflects the longer purchase terms in place in Brunel Healthcare Limited, which joined the Group in January 2007.

### Political and charitable donations

Charitable donations during the year were £3,000 (2006:£nil). There were no political donations.

**Substantial shareholdings**

At the close of business on 28 February 2008 the directors were aware of the following substantial shareholdings:

|  | Ordinary shares of<br>10 pence each<br>Number | Percentage<br>holdings<br>% |
|--|---|-----------------------------|
| Elder Pharmaceuticals FZCO               | 37,101,786                                    | 21.1                        |
| Rathbone Investment Management           | 14,723,084                                    | 8.4                         |
| Kaupthing Singer & Friedlander           | 9,647,888                                     | 5.5                         |
| Stirling S L Mrs                         | 8,730,002                                     | 5.0                         |
| Stirling J K Esq                         | 7,230,002                                     | 4.1                         |
| Rensburg Sheppards Investment Management | 6,800,000                                     | 3.9                         |
| Artemis Investment Management            | 6,450,000                                     | 3.7                         |
| AXA Framlington Investment Management    | 5,667,023                                     | 3.2                         |

**Post balance sheet events**

On 3 February 2008 NeutraHealth acquired product licenses and the brands of Gerard House and Galloways from Potters Limited for £400,000.

**Financial instruments**

Information on the Group's financial instruments is disclosed in note 2 to the consolidated financial statements on pages 25 and 26.

**Disclosure of information to auditors**

At the date of making this report each of the company's directors, as set out on pages 7 and 8, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

**Auditors**

During the year RSM Robson Rhodes resigned as auditors, and Baker Tilly UK Audit LLP were appointed as the Group's auditors. The Directors have resolved to reappoint Baker Tilly UK Audit LLP as the Group's auditors. Their reappointment will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Robin Hilton FCA**

Company Secretary

4 March 2008

## **Policy statement**

It is the objective of the Board to attain a high standard of Corporate Governance. As an AIM listed company, full compliance with the Combined Code is not a formal obligation. The Company has, however, sought to adopt the provisions of the code that are appropriate to its size and organisation and establish frameworks for the achievement of this objective. Set out below is a summary of how, at 31 December 2007, the Group was dealing with corporate governance issues.

## **Board and Committees**

### *The Board*

The Board comprises four executive and five non-executive directors. The roles of the (non-executive) Chairman and Chief Executive are separated. The non-executive directors bring relevant experience from different backgrounds. The Board generally meets at least six times per annum to consider the current state of the business and strategic issues. Board papers including detailed management accounts are circulated in advance of meetings. The Board considers strategic matters, investment expenditure, business development policy, expenditure on major capital items, annual operating budgets, management structure and internal control procedures. The Board undertakes an annual review of its effectiveness.

Non-executive directors have access to all information and, if required, external advice at the expense of the Company.

### *Remuneration Committee*

The Remuneration Committee comprises Anthony Good as chairman and Sir Gulam Noon, and determines the terms and conditions of service of executive directors, and the Chairman. The report of the Board on directors' remuneration is set out on pages 12 and 13.

### *Nominations Committee*

The Nominations Committee comprises Sir Gulam Noon as chairman, Anthony Good and Martin Gatto, and is responsible for proposing to the Board the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board and senior management positions as and when they arise.

### *Audit Committee*

The Audit Committee comprises Sir Gulam Noon, Anthony Good and Martin Gatto as chairman. The Audit Committee meets at least twice annually and in addition the auditors may request a meeting at any time. The Audit Committee is responsible for reviewing the final accounts prior to submission to the Board. The Committee agrees the scope and approach to the annual audit in advance with the auditors. The Committee keeps under review the appointment and remuneration of the external auditors, their cost effectiveness, their independence and objectivity.

### *Technical Committee*

The Technical Committee was disbanded during the year as it was deemed inappropriate for the enlarged Group. It has been replaced by a technical policy that has been approved by the NeutraHealth Board and adopted by group companies.

## **Internal control and risk management**

The Board is responsible for maintaining an appropriate system of internal control to provide reasonable (but not absolute) assurance of the quality and reliability of financial information used to direct the business, safeguard assets and recognise liabilities in accordance with company law and generally accepted accounting practices. Authority levels for purchase and capital commitments are defined. The Company has developed detailed budgets and monthly management reporting of actual results against budgets and analyses variances in performance. Regular re-forecasting and projection of results are carried out during the year.

The Board has established a formal process for the assessment of key risks to the business. The risk assessment is updated on an ongoing basis and is reviewed regularly at Board meetings.

## **Going concern**

The directors have prepared and reviewed financial forecasts and the cash flow requirements to meet the Group and parent company's financial objectives. The directors are satisfied that, taking into account the current cash resources and facilities available to the business and its future cash requirements, it is appropriate to prepare accounts on a going concern basis.

## **Investor relations**

Management endeavours to maintain a regular dialogue with institutions and analysts particularly in relation to interim and full year results. All shareholders will receive a printed copy of the Report and Accounts. The website ([www.neutrahealthplc.com](http://www.neutrahealthplc.com)) contains investor information including regulatory announcements, financial statements and share price data.

The Board welcomes as many investors as possible to the Annual General Meeting and invites discussion on issues facing the Company. At least 21 days notice is given for the AGM.

**Introduction**

As an AIM listed company, the preparation of a Report on Directors' Remuneration is not an obligation. The Company has, however, sought to provide information which is appropriate to its size and organisation.

**Remuneration Policy**

The Remuneration Committee determines the policy on executive directors' remuneration. The objectives of the policy are to ensure that:

- Senior executive rewards and incentives are aligned with the performance of the Company and the interests of shareholders
- The level of remuneration provided is sufficient to attract and retain executives of an appropriate calibre.

Salary and benefits of directors are reviewed annually, taking into account Company and individual performance with reference to institutional guidelines and current market practices.

Executive directors' remuneration comprises four elements:

- Annual salary.
- Annual bonus: an annual bonus is payable to the executive directors on the achievement of company objectives, defined at the outset of each year.
- Share based incentives: share based incentives are awarded to executive directors and key members of the management team, allowing participation in share price growth for the purpose of aligning the interests of management with those of shareholders. The Remuneration Committee oversees the award of share options and the management of option schemes.
- Benefits in kind: executive directors are provided with private medical cover. Lump sums, via death in service insurance policies, to a maximum of 4 times basic salary are provided.

Non-executive directors' remuneration is determined by the Board and set at a level that is sufficient to attract and retain non-executives of an appropriate calibre.

**Aggregate Directors' Remuneration**

The total amounts for directors' remuneration were as follows:

|            | 2007<br>£'000 | 2006<br>£'000 |
|------------|---------------|---------------|
| Emoluments | 497           | 224           |

Details of directors' remuneration for the year ended 31 December 2007 are as follows:

|                                | Basic salary |            | Performance related bonus |          | Benefits in kind |          | Total      | Total      |
|--------------------------------|--------------|------------|---------------------------|----------|------------------|----------|------------|------------|
|                                | 2007         | 2006       | 2007                      | 2006     | 2007             | 2006     | 2007       | 2006       |
|                                | £'000        | £'000      | £'000                     | £'000    | £'000            | £'000    | £'000      | £'000      |
| <b>Executive directors</b>     |              |            |                           |          |                  |          |            |            |
| M H Toxvaerd                   | 107          | 75         | –                         | –        | 1                | 1        | 108        | 76         |
| R D Hilton                     | 100          | 80         | 25                        | 5        | 1                | 1        | 126        | 86         |
| J S McEuen                     | 125          | 21         | –                         | –        | 1                | 1        | 126        | 22         |
| R J Stagg                      | 85           | –          | –                         | –        | –                | –        | 85         | –          |
| Sub total                      | 417          | 176        | 25                        | 5        | 3                | 3        | 445        | 184        |
| <b>Non-executive directors</b> |              |            |                           |          |                  |          |            |            |
| S M Gatto                      | 30           | 25         | –                         | –        | –                | –        | 30         | 25         |
| A B M Good                     | 10           | 5          | –                         | –        | –                | –        | 10         | 5          |
| R A Hill                       | 2            | 5          | –                         | –        | –                | –        | 2          | 5          |
| Sir G K Noon                   | 10           | 5          | –                         | –        | –                | –        | 10         | 5          |
| J K Saxena                     | –            | –          | –                         | –        | –                | –        | –          | –          |
| Z Hydari                       | –            | –          | –                         | –        | –                | –        | –          | –          |
| <b>Total</b>                   | <b>469</b>   | <b>216</b> | <b>25</b>                 | <b>5</b> | <b>3</b>         | <b>3</b> | <b>497</b> | <b>224</b> |

No directors have any pension plans.

### Directors' share options

Details of directors' share options at 31 December 2007 are as follows:

|                                | At<br>31 December<br>2006 | Granted          | At<br>31 December<br>2007 | Exercise<br>price<br>p | Earliest<br>exercise<br>date | Date of<br>expiry |
|--------------------------------|---------------------------|------------------|---------------------------|------------------------|------------------------------|-------------------|
| <b>Executive directors</b>     |                           |                  |                           |                        |                              |                   |
| M H Toxvaerd                   | 1,259,000                 | –                | 1,259,000                 | 10                     | 4/2/2007                     | 4/2/2015          |
| M H Toxvaerd                   | 1,550,000                 | –                | 1,550,000                 | 10                     | 10/2/2007                    | 10/2/2015         |
| M H Toxvaerd                   | 9,523,809                 | –                | 9,523,809                 | 10.5                   | 31/8/2007                    | 31/8/2015         |
| R D Hilton                     | 1,666,666                 | –                | 1,666,666                 | 13.5                   | 14/11/2007                   | 14/11/2015        |
| R D Hilton                     | 2,000,000                 | –                | 2,000,000                 | 12.5                   | 24/10/2008                   | 24/10/2016        |
| J S McEuen                     | 703,703                   | –                | 703,703                   | 13.5                   | 14/11/2007                   | 14/11/2015        |
| J S McEuen                     | 2,000,000                 | –                | 2,000,000                 | 12.5                   | 24/10/2008                   | 24/10/2016        |
| R J Stagg                      | –                         | 2,500,000        | 2,500,000                 | 12.5                   | 16/10/2009                   | 16/10/2017        |
| Sub total                      | 18,703,178                | 2,500,000        | 21,203,178                |                        |                              |                   |
| <b>Non-executive directors</b> |                           |                  |                           |                        |                              |                   |
| S M Gatto                      | 629,500                   | –                | 629,500                   | 10                     | 4/2/2007                     | 4/2/2015          |
| S M Gatto                      | 775,000                   | –                | 775,000                   | 10                     | 10/2/2007                    | 10/2/2015         |
| S M Gatto                      | 4,761,904                 | –                | 4,761,904                 | 10.5                   | 31/8/2007                    | 31/8/2015         |
| <b>Total</b>                   | <b>24,869,582</b>         | <b>2,500,000</b> | <b>27,369,582</b>         |                        |                              |                   |

Directors not listed above had no share options at the beginning or end of the period. All share options were granted at market price at the date of grant.

The share options issued to R D Hilton, J S McEuen and R J Stagg may only be exercised if the Company's share price has been at least 20 pence for the 10 consecutive business days prior to the date of exercise.

All other share options can be exercised unconditionally as disclosed in the prospectus for Admission to trading on AIM in August 2005.

No share options relating to the Directors were exercised or lapsed in the year.

The market price of the Company's ordinary shares at 31 December 2007 was 9.9p. The range during the year was 8.6p to 14.5p.

This report was approved on behalf of the Board of Directors on 4 March 2008 and signed on its behalf by:

**Anthony Good**

Remuneration Committee Chairman

**Statement of directors' responsibilities for the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board ("IASB"). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing each of the group and company 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 they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors confirm they have complied with the above requirements in preparing the financial statements.

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 requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the NeutraHealth plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the group and parent company financial statements on pages 16 to 47.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Review of the Business section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement, the Business Review, Directors' Remuneration Report, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

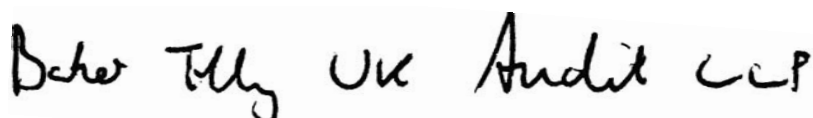
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



### **BAKER TILLY UK AUDIT LLP**

Registered Auditor

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

## NeutraHealth plc

Report and Accounts 2007

Consolidated Income Statement

| Year ended 31 December 2007                   | Note | 2007<br>£'000 | 2006<br>£'000 |
|---|------|---------------|---------------|
| <b>Revenue</b>                                | 4    | 21,307        | 8,571         |
| Cost of sales                                 |      | (13,118)      | (4,025)       |
| Gross profit                                  |      | 8,189         | 4,546         |
| Other operating income                        |      | 74            | -             |
| Administrative expenses                       |      | (5,892)       | (3,106)       |
| Employee termination and reorganisation costs | 8    | -             | (151)         |
| Aborted acquisition fees                      | 8    | -             | (156)         |
| <b>Profit from operations</b>                 |      | 2,371         | 1,133         |
| Investment income                             | 5    | 84            | 70            |
| Finance costs                                 | 6    | (593)         | (301)         |
| <b>Profit before tax</b>                      |      | 1,862         | 902           |
| Income tax expense                            | 7    | (635)         | (312)         |
| <b>Profit for the year</b>                    | 8    | 1,227         | 590           |
| <b>Earnings per share</b>                     |      |               |               |
| Basic   | 10   | 0.8p          | 0.4p          |
| Diluted                                       | 10   | 0.8p          | 0.4p          |

All amounts relate to continuing operations.

As permitted by section 230 of the Companies Act 1985, no separate Income Statement is presented in respect of the parent company. The parent company profit for the year was £507,000 (2006: £101,000)

**NeutraHealth plc**  
 Report and Accounts 2007  
 Consolidated Balance Sheet

| As at 31 December 2007   | Note | 2007<br>£'000 | 2006<br>£'000 |
|--|------|---------------|---------------|
| <b>Assets</b>  |      |               |               |
| <b>Non-current assets</b>  |      |               |               |
| Goodwill   | 11   | 20,049        | 15,649        |
| Other intangible assets  | 12   | 1,498         | 109           |
| Property, plant and equipment                                    | 13   | 1,324         | 522           |
| Available-for-sale investments                                   | 15   | 350           | –             |
| Deferred tax assets  | 23   | –             | 52            |
|  |      | 23,221        | 16,332        |
| <b>Current assets</b>  |      |               |               |
| Inventories  | 16   | 3,212         | 852           |
| Trade and other receivables                                      | 17   | 3,701         | 1,136         |
| Cash and cash equivalents  | 17   | 3,389         | 1,172         |
|  |      | 10,302        | 3,160         |
| <b>Total assets</b>  |      | <b>33,523</b> | <b>19,492</b> |
| <b>Equity and liabilities</b>                                    |      |               |               |
| <b>Capital and reserves</b>                                      |      |               |               |
| Share capital  | 19   | 17,599        | 14,079        |
| Other reserves   | 20   | 2,302         | 378           |
| Retained earnings  | 21   | 1,770         | 543           |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>21,671</b> | <b>15,000</b> |
| <b>Non-current liabilities</b>                                   |      |               |               |
| Trade and other payables   | 22   | 676           | –             |
| Deferred tax liabilities   | 23   | 655           | 74            |
| Bank loan  | 24   | 3,416         | 2,602         |
| Obligations under finance leases                                 | 25   | 118           | –             |
|  |      | 4,865         | 2,676         |
| <b>Current liabilities</b>                                       |      |               |               |
| Trade and other payables   | 22   | 5,298         | 758           |
| Current tax liabilities  |      | 558           | 103           |
| Bank loan  | 24   | 972           | 945           |
| Obligations under finance leases                                 | 25   | 159           | 10            |
|  |      | 6,987         | 1,816         |
| <b>Total liabilities</b>   |      | <b>11,852</b> | <b>4,492</b>  |
| <b>Total equity and liabilities</b>                              |      | <b>33,523</b> | <b>19,492</b> |

These financial statements were approved by the Board of Directors and authorised for issue on 4 March 2008.

**NeutraHealth plc**  
 Report and Accounts 2007  
 Company Balance Sheet

| As at 31 December 2007              | Note | 2007<br>£'000 | 2006<br>£'000 |
|-------------------------------------|------|---------------|---------------|
| <b>Assets</b>                       |      |               |               |
| <b>Non-current assets</b>           |      |               |               |
| Property, plant and equipment       | 13   | 3             | 1             |
| Investment in subsidiaries          | 14   | 24,185        | 18,029        |
| Financial asset investments         | 15   | 350           | –             |
| Deferred tax assets                 | 23   | –             | 52            |
|                                     |      | 24,538        | 18,082        |
| <b>Current assets</b>               |      |               |               |
| Trade and other receivables         | 17   | 1,346         | 149           |
| Cash and cash equivalents           | 17   | 1,293         | 493           |
|                                     |      | 2,639         | 642           |
| <b>Total assets</b>                 |      | <b>27,177</b> | <b>18,724</b> |
| <b>Equity and liabilities</b>       |      |               |               |
| <b>Capital and reserves</b>         |      |               |               |
| Share capital                       | 19   | 17,599        | 14,079        |
| Other reserves                      | 20   | 2,302         | 378           |
| Retained earnings/(deficit)         | 21   | 548           | 41            |
| <b>Total equity</b>                 |      | <b>20,449</b> | <b>14,498</b> |
| <b>Non-current liabilities</b>      |      |               |               |
| Trade and other payables            | 22   | 676           | –             |
| Deferred tax liabilities            | 23   | 25            | –             |
| Bank loan                           | 24   | 3,416         | 2,602         |
|                                     |      | 4,117         | 2,602         |
| <b>Current liabilities</b>          |      |               |               |
| Trade and other payables            | 22   | 1,639         | 679           |
| Bank loan                           | 24   | 972           | 945           |
|                                     |      | 2,611         | 1,624         |
| <b>Total liabilities</b>            |      | <b>6,728</b>  | <b>4,226</b>  |
| <b>Total equity and liabilities</b> |      | <b>27,177</b> | <b>18,724</b> |

These financial statements were approved by the Board of Directors and authorised for issue on 4 March 2008.

**Robin Hilton FCA**  
 Director

## NeutraHealth plc

Report and Accounts 2007

### Consolidated Statement of Changes in Equity

| Year ended 31 December 2007  | Share capital<br>£'000 | Other reserves<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|-------------------------|----------------------------|----------------|
| <b>At 1 January 2006</b>   | 13,285                 | 48                      | (47)                       | 13,286         |
| Profit for the year  | –                      | –                       | 590                        | 590            |
| <b>Total recognised income and expense for the year</b>                    | –                      | –                       | 590                        | 590            |
| Issue of share capital   | 794                    | 206                     | –                          | 1,000          |
| Recognition of share based payment   | –                      | 124                     | –                          | 124            |
| <b>Changes in equity</b>   | 794                    | 330                     | –                          | 1,124          |
| <b>At 31 December 2006</b>   | 14,079                 | 378                     | 543                        | 15,000         |
| Profit for the year  | –                      | –                       | 1,227                      | 1,227          |
| Increase in fair value of financial asset investments, net of deferred tax | –                      | 63                      | –                          | 63             |
| <b>Total recognised income and expense for the year</b>                    | –                      | 63                      | 1,227                      | 1,290          |
| Issue of share capital net of issue expenses (see note 19)                 | 3,520                  | 1,761                   | –                          | 5,281          |
| Recognition of share based payments  | –                      | 100                     | –                          | 100            |
| <b>Changes in equity</b>   | 3,520                  | 1,861                   | –                          | 5,381          |
| <b>At 31 December 2007</b>   | 17,599                 | 2,302                   | 1,770                      | 21,671         |

### Company Statement of Changes in Equity

| Year ended 31 December 2007  | Share capital<br>£'000 | Other reserves<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|--|------------------------|-------------------------|----------------------------|----------------|
| <b>At 1 January 2006</b>   | 13,285                 | 48                      | (60)                       | 13,273         |
| Profit for the year  | –                      | –                       | 101                        | 101            |
| <b>Total recognised income and expense for the year</b>                    | –                      | –                       | 41                         | 41             |
| Issue of share capital   | 794                    | 206                     | –                          | 1,000          |
| Recognition of share based payment   | –                      | 124                     | –                          | 124            |
| <b>Changes in equity</b>   | 794                    | 330                     | –                          | 1,124          |
| <b>At 31 December 2006</b>   | 14,079                 | 378                     | 41                         | 14,498         |
| Profit for the year  | –                      | –                       | 507                        | 507            |
| Increase in fair value of financial asset investments, net of deferred tax | –                      | 63                      | –                          | 63             |
| <b>Total recognised income and expense for the year</b>                    | –                      | 63                      | 507                        | 570            |
| Issue of share capital net of issue expenses (see note 19)                 | 3,520                  | 1,761                   | –                          | 5,281          |
| Recognition of share based payments  | –                      | 100                     | –                          | 100            |
| <b>Changes in equity</b>   | 3,520                  | 1,861                   | –                          | 5,381          |
| <b>At 31 December 2007</b>   | 17,599                 | 2,302                   | 548                        | 20,449         |

**NeutraHealth plc**

Report and Accounts 2007

## Consolidated Cash Flow Statement

| Year ended 31 December 2007                            | Note | 2007<br>£'000 | 2006<br>£'000 |
|--|------|---------------|---------------|
| <b>Operating activities</b>                            |      |               |               |
| Cash receipts from customers                           |      | 17,076        | 8,471         |
| Cash paid to suppliers and employees                   |      | (14,619)      | (7,598)       |
| Cash generated from operations                         | 26   | 2,457         | 873           |
| Income taxes paid                                      |      | (283)         | (531)         |
| Interest paid  |      | (478)         | (302)         |
| Net cash from operating activities                     |      | 1,696         | 40            |
| <b>Investing activities</b>                            |      |               |               |
| Interest received                                      |      | 83            | 66            |
| Proceeds on disposal of available-for-sale investments |      | –             | 6             |
| Proceeds on disposal of property, plant and equipment  |      | –             | 3             |
| Purchases of property, plant and equipment             |      | (321)         | (193)         |
| Payments for intangible assets                         |      | (26)          | (61)          |
| Acquisition of subsidiaries net of cash acquired       | 28   | (4,334)       | (560)         |
| Acquisition of financial asset investments             |      | (262)         | –             |
| Net cash used in investing activities                  |      | (4,860)       | (739)         |
| <b>Financing activities</b>                            |      |               |               |
| Repayment of borrowings                                |      | (1,241)       | (400)         |
| Repayment of obligations under finance leases          |      | (147)         | (9)           |
| New finance leases                                     |      | 172           | –             |
| Proceeds on issue of shares                            |      | 5,632         | –             |
| Cost of issue of shares                                |      | (348)         | –             |
| New bank loans raised                                  |      | 1,400         | –             |
| Cost of raising bank loans                             |      | (87)          | –             |
| Net cash from/(used in) financing activities           |      | 5,381         | (409)         |
| Net increase/(decrease) in cash and cash equivalents   |      | 2,217         | (1,108)       |
| Cash and cash equivalents at the beginning of the year |      | 1,172         | 2,280         |
| Cash and cash equivalents at the end of the year       | 27   | 3,389         | 1,172         |

**NeutraHealth plc**  
 Report and Accounts 2007  
 Company Cash Flow Statement

| Year ended 31 December 2007                            | Note | 2007<br>£'000 | 2006<br>£'000 |
|--|------|---------------|---------------|
| <b>Operating activities</b>                            |      |               |               |
| Cash paid to suppliers and employees                   |      | (538)         | (435)         |
| Cash generated from operations                         |      | (538)         | (435)         |
| Interest paid  |      | (442)         | (301)         |
| Net cash used in operating activities                  |      | (980)         | (736)         |
| <b>Investing activities</b>                            |      |               |               |
| Dividends received                                     |      | 1,600         | 1,000         |
| Interest received                                      |      | 40            | 57            |
| Purchase of property, plant & equipment                |      | (3)           | -             |
| Acquisition of subsidiaries                            | 28   | (4,537)       | (548)         |
| Purchase of financial asset investments                |      | (262)         | -             |
| Net cash (used in)/from investing activities           |      | (3,162)       | 509           |
| <b>Financing activities</b>                            |      |               |               |
| Repayment of borrowings                                |      | (500)         | (400)         |
| Proceeds on issue of shares                            |      | 5,631         | -             |
| Cost of issue of shares                                |      | (348)         | -             |
| New bank loans raised                                  |      | 1,400         | -             |
| Cost of raising new bank loans                         |      | (87)          | -             |
| Cash loans to subsidiaries                             |      | (1,154)       | (786)         |
| Net cash from/(used in) financing activities           |      | 4,942         | (1,186)       |
| Net increase/(decrease) in cash and cash equivalents   |      | 800           | (1,413)       |
| Cash and cash equivalents at the beginning of the year |      | 493           | 1,906         |
| Cash and cash equivalents at the end of the year       | 27   | 1,293         | 493           |

## 1. General information

NeutraHealth plc (the Company) is a public limited company incorporated in the United Kingdom. The addresses of its registered office and principal place of business are disclosed in the introduction to the Report and Accounts. The principal activities of the Company and its subsidiaries (the Group) are described in note 4.

## 2. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulations.

### Standards issued by not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

|          |   |
|----------|---|
| IFRS 2   | Share Based Payment – Amendment relating to vesting conditions and cancellations  |
| IFRS 3   | Business Combinations – Comprehensive revision on applying the acquisition method                                       |
| IFRS 8   | Operating Segments  |
| IFRIC 11 | IFRS 2 – Group and Treasury Share Transactions  |
| IFRIC 12 | Service Concession Arrangements   |
| IFRIC 13 | Customer Loyalty Programmes   |
| IFRIC 14 | IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction                        |
| IAS 1    | Presentation of Financial Statements – Amendments including requiring a statement of comprehensive income               |
| IAS 23   | Borrowing costs – Comprehensive revision to prohibit immediate expensing  |
| IAS 27   | Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3             |
| IAS 28   | Investments in Associates - Consequential amendments arising from amendments to IFRS 3                                  |
| IAS 31   | Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3                                |
| IAS 32   | Financial Instruments Presentation – Amendments relating to puttable instruments and obligations arising on liquidation |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect. Apart from the adoption of IFRS 7, which has been applied this year, no other standards applied for the first time have had a significant effect on the financial statements.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of available for sale investments. The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of other members of the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in

accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

#### **Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### **Other Intangible Assets**

Other Intangible fixed assets include trademarks, website costs, customer relationships and customer databases.

Trademarks are stated at fair value less accumulated amortisation if acquired in a business combination or at purchase cost for subsequent additions. Trademarks are valued on an individual basis and amortised over their estimated useful lives of between 5 and 20 years.

Website costs are stated at cost less accumulated amortisation. Amortisation is charged over the estimated useful life of 5 years and is included within administrative expenses.

Customer relationships are only recognised if acquired in a business combination. They are stated at the expected net present value of the future cashflows arising from the relationships and have an estimated useful economic life of 12 years.

Customer databases are only recognised if acquired in a business combination. They are stated at the expected net present value of the future cashflows from those customers and have an estimated useful economic life of 3 years.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development expenditure is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**

Leasehold improvements and plant, machinery and office equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using either the straight-line or the reducing-balance methods.

The following rates are used for depreciation of leasehold improvements, plant, machinery & office equipment:

|                                       |  |
|---------------------------------------|--|
| Leasehold improvements                | Over the remaining life of the lease                   |
| Plant, machinery and office equipment | Between 10% and 33% reducing balance and straight line |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Investment in subsidiaries**

Investment in subsidiaries is stated at cost less any provision for impairment

#### **Financial asset investments**

Financial asset investments are initially recognised at fair value plus transaction costs. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as financial asset investments are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

#### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **Financial Instruments**

The Group is committed to mitigating financial risk to the extent that it is practical having regard to the size and nature of the organisation. The following policies are operated:

- Contracts are negotiated with key suppliers that limit price rises to the growth in the retail price index and for variations in raw material prices.
- The Group is committed to hedging the interest rate payable on the bank borrowing if interest rates increase twice in any year.
- The Group maintains positive cash reserves.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### *Trade receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the

asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### *Investments*

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are measured at fair value, plus directly attributable transaction costs. *Cash and cash equivalents*

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### *Bank borrowings*

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

#### *Trade payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

#### **Share Capital**

Ordinary shares issued by the Company are classified as equity and recorded at proceeds received net of direct issue costs.

#### **Share based payments**

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### 3. Critical accounting judgements and key sources of estimation uncertainty

#### Critical judgements in applying the Group's accounting policies

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if those assets are separable and their fair value can be measured reliably. In making its judgements, management have considered the recognition criteria for intangible assets set out in IFRS 3 and IAS 38.

On acquiring Brunel Healthcare Limited in January 2007 management have judged that a key customer contract was a separable intangible asset, and that other customer relationships were insufficiently separable to be recognised.

On acquiring Health Products for Life Limited in July 2007 management have judged that the customer database is a separable intangible asset, and that no other separate intangible assets exist.

#### Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions affecting recognition and measurement in the consolidated Balance Sheet and Income Statement, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. In particular, estimates are required when:

- Assessing the need for and measurement of impairment of goodwill.
- Determining the fair value of trademarks and their expected useful lives.
- Determining the fair value of share based payments.

Assessing whether goodwill is impaired requires an estimation of the value in use of the cash-generating units in which goodwill has arisen on acquisition. The value in use calculation requires the entity to estimate the future cash flows of expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. There is no impairment in the value of the goodwill based on our calculation.

Determining the fair value of trademarks and other intangibles involves an assessment of a combination of factors including whether the trademark is in use, whether the trademark has value to a third party, and what is the present value of future cash flows arising from the trademark. Trademark value only becomes certain once it is agreed with any purchaser.

Determining the fair value of share based payments requires adjustments to reflect non-transferability, vesting conditions, and behavioural considerations. The date and number of options exercised may differ from the amounts used in arriving at the fair value.

### 4. Revenue

The whole of the turnover is attributable to the one principal activity of the Group being the sale and distribution of nutraceutical products. For management purposes, all results are reported as part of this single activity. An analysis of the Group's revenue is as follows:

|                   | 2007<br>£'000 | 2006<br>£'000 |
|-------------------|---------------|---------------|
| Sales of goods    | 21,307        | 8,571         |
| Other income      | 74            | –             |
| Investment income | 84            | 70            |
|                   | 21,465        | 8,641         |

All turnover originates in the United Kingdom, and all assets and liabilities are in the UK. A geographical analysis of turnover by destination is as follows:

|                       | 2007<br>£'000 | 2006<br>£'000 |
|-----------------------|---------------|---------------|
| United Kingdom        | 20,249        | 7,550         |
| Europe (excluding UK) | 832           | 822           |
| Rest of World         | 226           | 199           |
|                       | 21,307        | 8,571         |

**5. Investment income**

|                           | 2007<br>£'000 | 2006<br>£'000 |
|---------------------------|---------------|---------------|
| Interest on bank deposits | 84            | 70            |

**6. Finance costs**

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Interest on bank overdrafts and loans        | 513           | 256           |
| Interest on deferred consideration           | 26            | 29            |
| Interest on obligations under finance leases | 28            | 1             |
| Other finance costs                          | 26            | 15            |
| Total borrowing costs                        | 593           | 301           |

All borrowing costs arose from continuing operations.

**7. Taxation**

|                                 | 2007<br>£'000 | 2006<br>£'000 |
|---------------------------------|---------------|---------------|
| Corporation tax – current year  | 627           | 307           |
| Deferred tax (note 23)          | 18            | 5             |
| Corporation tax – prior year    | 645<br>(10)   | 312<br>-      |
| Income tax expense for the year | 635           | 312           |

Income tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. On 1 April 2008, the rate of corporation tax that applies to the companies in the Group will fall from 30% to 28%. The Group has therefore remeasured from the 1 April 2008 those temporary differences which are expected to reverse after that date.

The total charge for the year can be reconciled to the accounting profit as follows:

|  | 2007  |       | 2006  |       |
|--|-------|-------|-------|-------|
|  | £'000 | %     | £'000 | %     |
| Profit before tax  | 1,862 |       | 902   |       |
| Tax at the income tax rate of 30%  | 559   | 30.0  | 270   | 30.0  |
| Tax effect of expenses that are not deductible in determining taxable profit   | 75    | 4.0   | 62    | 6.8   |
| Tax effect of small company rate in group companies                            | (7)   | (0.4) | -     | -     |
| Tax effect of changes in share price on deferred tax                           | 52    | 2.8   | (20)  | (2.2) |
| Tax effect of intangible assets recognised through acquisition on deferred tax | (34)  | (1.8) | -     | -     |
| Tax effect of over provision in prior year                                     | (10)  | (0.5) | -     | -     |
| Tax expense and effective tax rate for the year                                | 635   | 34.1  | 312   | 34.6  |

## 8. Profit for the year

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Profit for the year has been arrived at after charging/(crediting):                     |               |               |
| Depreciation of property, plant and equipment   | 224           | 83            |
| Amortisation of intangible assets   | 134           | 11            |
| Cost of inventories recognised as an expense  | 12,384        | 3,566         |
| Profit on disposal of fixed assets  | –             | (2)           |
| Profit on disposal of investments   | –             | (3)           |
| Share-based payments (see note 31)  | 100           | 124           |
| Gain relating to financial asset investments – recognised directly in equity            | 88            | –             |
| Research and development  | –             | 20            |
| Payments under operating leases (see note 29)   | 336           | 159           |
| Staff costs (see note 9)  | 2,497         | 1,464         |
| Fees payable to the Company's auditor for the audit of the annual financial statements  | 12            | 8             |
| Fees payable to the Company's auditor for other services:                               |               |               |
| Audit of the financial statements of the Company's subsidiaries pursuant to legislation | 33            | 26            |
| Tax compliance and tax advisory fees  | 10            | 11            |
| Services relating to corporate finance transactions                                     | 34            | 83            |

In 2007, the fees payable to the Company's auditors for corporate finance transaction services were capitalised as part of the costs of acquisition.

During the year the group did not impair any financial assets classified as loans and receivables (2006: nil).

The retained profit of the parent company, NeutraHealth plc for the year ended 31 December 2007 was £507,000 (2006: £101,000)

Fees payable to the Company's auditor, Baker Tilly UK Audit LLP, for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Company's group financial statements are required by the Companies (Disclosure of Auditor Remuneration) Regulations 2005, regulation 5(1), to disclose such fees on a consolidated basis.

In 2006, employee termination and reorganisation costs of £151,000 were incurred during the year. The costs related to reorganisation of roles in BioCare, and to the movement of Nutrigold operations to group facilities in Birmingham following acquisition. Also in 2006, aborted acquisition fees of £156,000 were incurred following the cessation of negotiations with acquisition targets during the year.

## 9. Staff costs

The average monthly number of employees (including executive directors) for the year was:

|                          | 2007<br>Number | 2006<br>Number |
|--------------------------|----------------|----------------|
| Sales and administration | 91             | 69             |

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Their aggregate remuneration comprised: |               |               |
| Wages and salaries                      | 2,242         | 1,337         |
| Social security costs                   | 228           | 127           |
| Pension contributions                   | 27            | –             |
| Share option charge                     | 100           | 124           |
|   | 2,597         | 1,588         |

Staff remuneration is charged through administrative expenses in the consolidated income statement. Details of directors' remuneration can be found in the Report on Directors' Remuneration and in note 34.

**10. Earnings per share**

|   | 2007<br>£'000       | 2006<br>£'000       |
|---|---------------------|---------------------|
| <b>Earnings</b>   |                     |                     |
| Earnings for the purposes of basic and diluted earning per share (profit for the year attributable to equity holders of the parent) | 1,227               | 590                 |
| Add back:   |                     |                     |
| Amortisation of intangible assets recognised on acquisition, net of deferred tax credit   | 89                  | 3                   |
| Charges for share options in issue  | 100                 | 124                 |
| Changes in deferred tax as a result of share price movements  | 52                  | (20)                |
| Earnings for the purpose of adjusted earning per share  | 1,468               | 697                 |
|   | 2007<br>Number '000 | 2006<br>Number '000 |
| <b>Number of shares</b>   |                     |                     |
| Weighted average number of ordinary shares for the purposes of basic earnings per share   | 152,553             | 135,483             |
| Effect of dilutive potential ordinary shares:   |                     |                     |
| Share options   | 1,329               | 2,175               |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share   | 153,882             | 137,658             |

**11. Goodwill**

| <i>Group</i>   | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| <b>Cost</b>  |               |               |
| At 1 January   | 15,649        | 15,101        |
| Arising on acquisition of a subsidiary (see note 28) | 4,400         | 548           |
| At 31 December                                       | 20,049        | 15,649        |
| <b>Impairment</b>                                    |               |               |
| At 1 January and 31 December                         | –             | –             |
| <b>Carrying amount</b>                               |               |               |
| At 31 December                                       | 20,049        | 15,649        |

Goodwill is allocated as follows:

|                                  | 2007<br>£'000 | 2006<br>£'000 |
|----------------------------------|---------------|---------------|
| BioCare Limited                  | 15,101        | 15,101        |
| Nutrigold Limited                | 548           | 548           |
| Brunel Healthcare Limited        | 3,903         | –             |
| Health Products for Life Limited | 497           | –             |
|                                  | 20,049        | 15,649        |

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the goodwill above has been determined based on a value in use calculation using approved budgets for the year ending 31 December 2008, cash flow projections for a further 12 months and an enterprise value at December 2009 based on future cash flows. The pre-tax discount rate applied to cash flow projections is 10.3%, being the Group's estimated weighted average cost of capital.

The key assumptions in the value in use calculation are as follows:

- Budgeted revenue growth is based on expected levels of activity given performance to date, enhanced by initiatives put in place since acquisition, and in the context of expected economic and market conditions
- Budgeted gross margin is based on existing arrangements in place with suppliers
- Budgeted operating profit is based on management's expectation of operating costs appropriate to growing the businesses

## 12. Other intangible assets

### Group 2007

|   | Trademarks<br>£'000 | Website costs<br>£'000 | Customer<br>relationships &<br>database<br>£'000 | Total<br>£'000 |
|---|---------------------|------------------------|--|----------------|
| <b>Cost</b>                             |                     |                        |  |                |
| At 1 January                            | 56                  | 65                     | –  | 121            |
| Additions                               | 21                  | 5                      | –  | 26             |
| Acquired on acquisition of subsidiaries | –                   | –                      | 1,497  | 1,497          |
| At 31 December                          | 77                  | 70                     | 1,497  | 1,644          |
| <b>Accumulated amortisation</b>         |                     |                        |  |                |
| At 1 January                            | 4                   | 8                      | –  | 12             |
| Amortisation for the year               | 3                   | 12                     | 119  | 134            |
| At 31 December                          | 7                   | 20                     | 119  | 146            |
| <b>Carrying amount</b>                  |                     |                        |  |                |
| At 31 December                          | 70                  | 50                     | 1,378  | 1,498          |

The amortisation charge for the current and preceding year is included in administrative expenses in the consolidated income statement.

### Group 2006

|                                 | Trademarks<br>£'000 | Website costs<br>£'000 | Total<br>£'000 |
|---------------------------------|---------------------|------------------------|----------------|
| <b>Cost</b>                     |                     |                        |                |
| At 1 January                    | 51                  | 9                      | 60             |
| Additions                       | 5                   | 56                     | 61             |
| At 31 December                  | 56                  | 65                     | 121            |
| <b>Accumulated amortisation</b> |                     |                        |                |
| At 1 January                    | 1                   | –                      | 1              |
| Amortisation for the year       | 3                   | 8                      | 11             |
| At 31 December                  | 4                   | 8                      | 12             |
| <b>Carrying amount</b>          |                     |                        |                |
| At 31 December                  | 52                  | 57                     | 109            |

**13. Property, plant and equipment**

*Group 2007*

|                                       | Leasehold<br>improvements<br>£'000 | Plant,<br>machinery<br>and office<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------------|------------------------------------|---|----------------|
| <b>Cost</b>                           |                                    |   |                |
| At 1 January                          | 100                                | 521   | 621            |
| Additions                             | 10                                 | 311   | 321            |
| Acquired on acquisition of subsidiary | 6                                  | 699   | 705            |
| At 31 December                        | 116                                | 1,531   | 1,647          |
| <b>Accumulated depreciation</b>       |                                    |   |                |
| At 1 January                          | 23                                 | 76  | 99             |
| Depreciation charge for the year      | 25                                 | 199   | 224            |
| At 31 December                        | 48                                 | 275   | 323            |
| <b>Carrying amount</b>                |                                    |   |                |
| At 31 December                        | 68                                 | 1,256   | 1,324          |

The net book value of assets held under finance leases within plant, machinery and office equipment is £690,000 (2006: £29,000). Depreciation charged during the year was £92,000 (2006: £3,000). These assets were acquired on acquisition of a subsidiary.

The depreciation charge for the current and preceding year year is included in administrative expenses in the consolidated income statement. The Group has pledged all property, plant and equipment to secure banking facilities granted to the Group.

*Group 2006*

|                                       | Leasehold<br>improvements<br>£'000 | Plant,<br>machinery<br>and office<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------------|------------------------------------|---|----------------|
| <b>Cost</b>                           |                                    |   |                |
| At 1 January                          | 74                                 | 293   | 367            |
| Additions                             | 26                                 | 166   | 192            |
| Acquired on acquisition of subsidiary | –                                  | 66  | 66             |
| Disposals                             | –                                  | (4)   | (4)            |
| At 31 December                        | 100                                | 521   | 621            |
| <b>Accumulated depreciation</b>       |                                    |   |                |
| At 1 January                          | 5                                  | 14  | 19             |
| Depreciation charge for the year      | 18                                 | 65  | 83             |
| Disposals                             | –                                  | (3)   | (3)            |
| At 31 December                        | 23                                 | 76  | 99             |
| <b>Carrying amount</b>                |                                    |   |                |
| At 31 December                        | 77                                 | 445   | 522            |

*Company*

|                                  | 2007<br>Office<br>equipment<br>£'000 | 2006<br>Office<br>equipment<br>£'000 |
|----------------------------------|--------------------------------------|--------------------------------------|
| <b>Cost</b>                      |                                      |                                      |
| At 1 January                     | 2                                    | 2                                    |
| Additions                        | 3                                    | –                                    |
| At 31 December                   | 5                                    | 2                                    |
| <b>Accumulated depreciation</b>  |                                      |                                      |
| At 1 January                     | 1                                    | –                                    |
| Depreciation charge for the year | 1                                    | 1                                    |
| At 31 December                   | 2                                    | 1                                    |
| <b>Carrying amount</b>           |                                      |                                      |
| At 31 December                   | 3                                    | 1                                    |

## 14. Investment in subsidiaries

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| <b>Cost</b>                                |               |               |
| At 1 January                               | 18,029        | 17,481        |
| Investment during the period (see note 28) | 6,156         | 548           |
| At 31 December                             | 24,185        | 18,029        |

Details of the Company's subsidiaries at 31 December 2007 all of which are incorporated and operate in England and Wales, and all with a year end of 31 December, are as follows:

| Name of Subsidiary               | Proportion of<br>ownership interest | Proportion of<br>voting power held | Principal activity                                       |
|----------------------------------|-------------------------------------|------------------------------------|--|
| BioCare Limited                  | 100%                                | 100%                               | Sale of<br>nutraceutical<br>products                     |
| Nutrigold Limited                | 100%                                | 100%                               | Sale of<br>nutraceutical<br>products                     |
| Brunel Healthcare Limited        | 100%                                | 100%                               | Sale of<br>nutraceutical &<br>pharmaceutical<br>products |
| Health Products for Life Limited | 100%                                | 100%                               | Sale of<br>nutraceutical<br>products                     |

## 15. Financial asset investments

| <i>Group and Company</i>          | 2007<br>£'000 | 2006<br>£'000 |
|-----------------------------------|---------------|---------------|
| Fair value at 1 January           | –             | –             |
| Additions during the year at cost | 262           | –             |
| Increase in fair value            | 88            | –             |
| Fair value at 31 December         | 350           | –             |

The investments included above represent investments in sterling denominated listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on closing bid prices. There were no impairment provisions against investments.

## 16. Inventories

| <i>Group</i>   | 2007<br>£'000 | 2006<br>£'000 |
|----------------|---------------|---------------|
| Raw Materials  | 757           | –             |
| Finished goods | 2,455         | 852           |
|                | 3,212         | 852           |

All inventories have been pledged as security to secure banking facilities granted to the Group.

**17. Other financial assets**

**Trade and other receivables**

|   | Group<br>2007<br>£'000 | Group<br>2006<br>£'000 | Company<br>2007<br>£'000 | Company<br>2006<br>£'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Amounts receivable from the sale of goods | 3,474                  | 986                    | –                        | –                        |
| Amounts due from Group companies          | –                      | –                      | 1,321                    | 117                      |
| Other amounts receivable                  | 227                    | 150                    | 25                       | 32                       |
|   | 3,701                  | 1,136                  | 1,346                    | 149                      |

The average credit period taken on sale of goods is 51 days (2006: 36 days). As at 31 December 2007 there were no amounts receivable from the sale of goods (2006: nil) that were impaired in relation to customers who are known to be in financial difficulty and from whom payment was overdue by more than three months.

The Group has pledged all trade and other receivables as security to secure banking facilities granted to the group.

The following table provides analysis of amounts receivable from the sale of goods that were past due at 31 December, but not impaired. The Group believes that the balances are ultimately recoverable based on a review of past payment history and the current financial status of the customers.

|                | 2007<br>£'000 | 2006<br>£'000 |
|----------------|---------------|---------------|
| Up to 3 months | 576           | 165           |

There are no significant credit risks arising from financial assets that are neither past due nor impaired.

At 31 December 2007 amounts receivable from the sale of goods were all denominated in sterling.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

**Cash and cash equivalents**

Cash and cash equivalents of £3,389,000 (2006: £1,172,000) comprise cash and short-term deposits held by the Group. The carrying amount of these assets approximates their fair value.

**Credit risk**

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 18. Financial risk management

The Group's activities expose the Group to a number of risks including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management program and appropriate use of derivatives. The Board provides written objectives, policies and procedures with regards to managing currency and interest rate exposure, liquidity and credit risk including guidance on the use of certain derivative and non-derivative financial instruments.

Exposures to financial risks are monitored and assessed by management and reported on a monthly basis. Any significant exposure is reported to the Board and discussed at Board meetings to ensure that the risk mitigation procedures are compliant with the Group policy and that any new risks are appropriately managed.

### Liquidity risk

The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations of the group as they fall due.

The Board receives regular forecasts which estimate the cash flows over the next eighteen months, so that management can ensure that sufficient financing is in place as it is required.

Detailed analysis of the debt facilities taken out and available to the group are disclosed in note 24. In addition, the interest rate swaps taken out by the Group to minimise its exposure to fluctuating interest rates ensure that the group can monitor cash outflows on interest payments closely.

### Maturity Analysis

The table below analyses the Group's financial liabilities on a contractual gross undiscounted cashflow basis into maturity groupings based on period outstanding at the balance sheet date up to the contractual maturity date.

| <i>Group</i>  | Less than<br>6 months<br>£'000 | Between<br>6 months<br>and 1 year<br>£'000 | Between<br>1 to 5 years<br>£'000 | Over<br>5 years<br>£'000 | Total<br>£'000 |
|---|--------------------------------|--|----------------------------------|--------------------------|----------------|
| Bank loans  | 486                            | 486  | 3,416                            | –                        | 4,388          |
| Finance leases  | 83                             | 76   | 118                              | –                        | 277            |
| Deferred consideration for acquisition<br>of subsidiaries | 780                            | 200  | 720                              | –                        | 1,700          |
| Trade and other payables                                  | 4,328                          | –  | –                                | –                        | 4,328          |
|   | 5,677                          | 762  | 4,254                            | –                        | 10,693         |
| <i>Company</i>  |                                |  |                                  |                          |                |
|   | Less than<br>6 months<br>£'000 | Between<br>6 months<br>and 1 year<br>£'000 | Between<br>1 to 5 years<br>£'000 | Over<br>5 years<br>£'000 | Total<br>£'000 |
| Bank loans  | 486                            | 486  | 3,416                            | –                        | 4,388          |
| Deferred consideration for acquisition<br>of subsidiaries | 780                            | 200  | 720                              | –                        | 1,700          |
| Trade and other payables                                  | 85                             | –  | –                                | –                        | 85             |
|   | 1,351                          | 686  | 4,136                            | –                        | 6,173          |

The Group is contractually required to pay £1,700,000 (2006: £nil) at maturity of deferred consideration for acquisition of subsidiaries. The amounts due on maturity exceed the carrying amounts of these financial liabilities by £54,000 (2006: £nil), due to the effect of the time value of money in determining the fair value at the balance sheet date.

The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management.

### Interest Rate Risk

The Group's interest rate exposure arises mainly from its interest bearing borrowings. Contractual agreements entered into at floating rates expose the entity to cash flow risk whilst the fixed rate borrowings expose the entity to fair value risk.

The Group's policy is to maintain its approximately 50% of borrowings in fixed rate financial instruments in order to minimise its interest rate exposure. In order to achieve such an equilibrium, the Group at times enters into interest rate swaps.

**18. Financial risk management – *continued***

The table below shows the Group's financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing.

*Group 2007*

|   | Fixed Rate<br>£'000 | Floating Rate<br>£'000 | Non-interest bearing<br>£'000 | Total<br>£'000 |
|---|---------------------|------------------------|-------------------------------|----------------|
| Financial asset investments                               | –                   | –                      | 350                           | 350            |
| Cash and cash equivalents                                 | –                   | 3,389                  | –                             | 3,389          |
| Trade and other receivables                               | –                   | –                      | 3,701                         | 3,701          |
|   | –                   | 3,389                  | 4,051                         | 7,440          |
| Trade and other payables                                  | –                   | –                      | 4,328                         | 4,328          |
| Bank loans  | 4,388               | –                      | –                             | 4,388          |
| Obligations under finance leases                          | 277                 | –                      | –                             | 277            |
| Deferred consideration for acquisition<br>of subsidiaries | –                   | –                      | 1,646                         | 1,646          |
|   | 4,665               | –                      | 5,974                         | 10,639         |

*Group 2006*

|                                  | Fixed Rate<br>£'000 | Floating Rate<br>£'000 | Non-interest bearing<br>£'000 | Total<br>£'000 |
|----------------------------------|---------------------|------------------------|-------------------------------|----------------|
| Cash and cash equivalents        | –                   | 1,172                  | –                             | 1,172          |
| Trade and other receivables      | –                   | –                      | 1,136                         | 1,136          |
|                                  | –                   | 1,172                  | 1,136                         | 2,308          |
| Trade and other payables         | –                   | –                      | 758                           | 758            |
| Bank loans                       | –                   | 3,547                  | –                             | 3,547          |
| Obligations under finance leases | 10                  | –                      | –                             | 10             |
|                                  | 10                  | 3,547                  | 758                           | 4,315          |

*Company 2007*

|   | Fixed Rate<br>£'000 | Floating Rate<br>£'000 | Non-interest bearing<br>£'000 | Total<br>£'000 |
|---|---------------------|------------------------|-------------------------------|----------------|
| Financial asset investments                               | –                   | –                      | 350                           | 350            |
| Cash and cash equivalents                                 | –                   | 1,293                  | –                             | 1,293          |
| Trade and other receivables                               | –                   | –                      | 1,346                         | 1,346          |
|   | –                   | 1,293                  | 1,696                         | 2,989          |
| Trade and other payables                                  | –                   | –                      | 669                           | 669            |
| Bank loans  | 4,388               | –                      | –                             | 4,388          |
| Deferred consideration for acquisition<br>of subsidiaries | –                   | –                      | 1,646                         | 1,646          |
|   | 4,388               | –                      | 2,315                         | 6,703          |

*Company 2006*

|                             | Fixed Rate<br>£'000 | Floating Rate<br>£'000 | Non-interest bearing<br>£'000 | Total<br>£'000 |
|-----------------------------|---------------------|------------------------|-------------------------------|----------------|
| Cash and cash equivalents   | –                   | 493                    | –                             | 493            |
| Trade and other receivables | –                   | –                      | 149                           | 149            |
|                             | –                   | 493                    | 149                           | 642            |
| Trade and other payables    | –                   | –                      | 679                           | 679            |
| Bank loans                  | –                   | 3,547                  | –                             | 3,547          |
|                             | –                   | 3,547                  | 679                           | 4,226          |

### Credit Risk Exposure

Credit risk predominantly arises from trade receivables and cash and cash equivalents.

Credit exposure is managed on a Group basis. Although external credit ratings are not obtained for all customers, Group policy is to assess the credit quality of each customer internally before accepting any terms of trade. Internal procedures are performed taking into account their financial position as well as their reputation within the industry and past experience.

The Group's maximum exposure to credit risk, gross of any collateral held, relating to its financial assets is equivalent to their carrying value as disclosed below. All financial assets have a fair value which is equal to their carrying value.

|  | <b>Group<br/>2007<br/>£'000</b> | <b>Group<br/>2006<br/>£'000</b> | <b>Company<br/>2007<br/>£'000</b> | <b>Company<br/>2006<br/>£'000</b> |
|--|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| <b>Maximum exposure to credit risk</b> |                                 |                                 |                                   |                                   |
| Trade and other receivables            | 3,701                           | 1,136                           | 1,346                             | 149                               |
| Cash and cash equivalents              | 3,389                           | 1,172                           | 1,293                             | 493                               |
|  | 7,090                           | 2,308                           | 2,639                             | 642                               |

### Capital Management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade in the foreseeable future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, fair value reserve, retained earnings, and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

The Group does not have a long-term gearing ratio target as the Group expects to make several acquisitions in the long term. These will be financed with the combination of debt and equity that the Board believes represents the best capital structure for the benefit of shareholders. At 31 December 2007, the ratio was 6% (2006: 16%). The decrease in 2007 was due to the investment from Elder Pharmaceutical in August 2007 more than offsetting the increased bank loan taken in January 2007 to finance the acquisition of Brunel Healthcare. The loan is expected to be repaid by January 2012. Further additional financing will only be sought in the twelve months to 31 December 2008 to fund any future acquisitions.

|                                | <b>Group<br/>2007<br/>£'000</b> | <b>Group<br/>2006<br/>£'000</b> | <b>Company<br/>2007<br/>£'000</b> | <b>Company<br/>2006<br/>£'000</b> |
|--------------------------------|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Total debt                     | 4,665                           | 3,557                           | 4,388                             | 3,547                             |
| Less cash and cash equivalents | (3,389)                         | (1,172)                         | (1,293)                           | (642)                             |
| Net Debt                       | 1,276                           | 2,385                           | 3,095                             | 2,905                             |
| Total equity                   | 21,671                          | 15,000                          | 20,449                            | 14,498                            |
| Debt to capital ratio          | 5.9%                            | 15.9%                           | 15.1%                             | 20.0%                             |

The Group does not have externally imposed capital requirements.

**19. Share capital**

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| <b>Authorised:</b>                      |               |               |
| 300,000,000 ordinary shares of 10p each | 30,000        | 30,000        |
| <b>Issued and fully paid:</b>           |               |               |
| At 1 January                            | 14,079        | 14,079        |
| 35,197,036 shares issued for cash       | 3,520         | –             |
| At 31 December                          | 17,599        | 14,079        |

The company has 175,985,137 (2006: 140,788,101) shares in issue. The company has one class of ordinary shares which carry no right to fixed income.

**Issues during the year**

On 20 August 2007 35,197,036 ordinary shares were issued at a price of 16.0p per ordinary share for cash consideration. These shares were issued to Elder Pharmaceutical Limited, a Bombay Stock Exchange listed company, who expressed interest in making an investment in NeutraHealth. The funds raised have been used to reduce the debt within the Group.

**20. Other reserves**

*Group and Company*

|   | Share<br>premium<br>£'000 | Share<br>options<br>reserve<br>£'000 | Fair Value<br>reserve<br>£'000 | Total<br>£'000 |
|---|---------------------------|--------------------------------------|--------------------------------|----------------|
| At 1 January 2006   | –                         | 48                                   | –                              | 48             |
| Recognition of share-based payments   | –                         | 124                                  | –                              | 124            |
| Shares issued at premium  | 206                       | –                                    | –                              | 206            |
| At 31 December 2006   | 206                       | 172                                  | –                              | 378            |
| Recognition of share-based payments   | –                         | 100                                  | –                              | 100            |
| Shares issued at premium  | 1,761                     | –                                    | –                              | 1,761          |
| Increase in fair value of financial asset investments,<br>net of deferred tax | –                         | –                                    | 63                             | 63             |
| At 31 December 2007   | 1,967                     | 272                                  | 63                             | 2,302          |

**21. Retained earnings/(deficit)**

*Group*

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| At 1 January   | 543           | (47)          |
| Profit for the year attributable to equity holders of the parent | 1,227         | 590           |
| At 31 December   | 1,770         | 543           |

*Company*

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| At 1 January   | 41            | (60)          |
| Profit for the year attributable to equity holders of the parent | 507           | 101           |
| At 31 December   | 548           | 41            |

## 22. Trade and other payables

|   | Group<br>2007<br>£'000 | Group<br>2006<br>£'000 | Company<br>2007<br>£'000 | Company<br>2006<br>£'000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| <b>Non-current liabilities</b>  |                        |                        |                          |                          |
| Deferred consideration for acquisition of subsidiaries<br>(see note 28) | 676                    | –                      | 676                      | –                        |
| <b>Current liabilities</b>  |                        |                        |                          |                          |
| Amounts payable relating to the purchase of goods<br>and services       | 3,567                  | 454                    | 2                        | 116                      |
| Other payables  | 761                    | 304                    | 83                       | 29                       |
| Amounts owed to Group companies   | –                      | –                      | 584                      | 534                      |
| Deferred consideration for acquisition of subsidiaries<br>(see note 28) | 970                    | –                      | 970                      | –                        |
|   | 5,298                  | 758                    | 1,639                    | 679                      |

The average credit period taken for trade purchases is 84 days. At 31 December 2007 amounts payable relating to the purchase of goods and services were all denominated in sterling.

The directors consider that the carrying amount of trade payables approximates their fair value.

## 23. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and Company, and the movements thereon, during the current reporting period.

### Group

|   | Accelerated<br>capital<br>allowances<br>£'000 | Deferred<br>tax on<br>fair value<br>adjustments<br>£'000 | Other<br>£'000 | Share based<br>payments<br>£'000 | Total<br>£'000 |
|---|---|--|----------------|----------------------------------|----------------|
| At 1 January 2006   | 37  | –  | –              | (32)                             | 5              |
| Charge/(Credit) to income for the year  | 25  | –  | –              | (20)                             | 5              |
| Acquisition of subsidiary   | 12  | –  | –              | –                                | 12             |
| At 31 December 2006   | 74  | –  | –              | (52)                             | 22             |
| Charge/(Credit) to income for the year  | 2   | (32)   | (4)            | 52                               | 18             |
| Acquisition of subsidiaries   | 112   | 419  | 59             | –                                | 590            |
| Recognition of deferred tax on fair<br>value reserve adjustment, charged<br>to reserves | –   | –  | 25             | –                                | 25             |
| At 31 December 2007   | 188   | 387  | 80             | –                                | 655            |

### Company

|   | Share based<br>payments<br>£'000 | Capital gains<br>£'000 | Total<br>£'000 |
|---|----------------------------------|------------------------|----------------|
| At 1 January 2006   | (32)                             | –                      | (32)           |
| Charge/(Credit) to income for the year  | (20)                             | –                      | (20)           |
| At 31 December 2006   | (52)                             | –                      | (52)           |
| Charge/(Credit) to income for the year  | 52                               | –                      | 52             |
| Recognition of deferred tax on fair<br>value reserve adjustment, charged<br>to reserves | –                                | 25                     | 25             |
| At 31 December 2007   | –                                | 25                     | 25             |

**23. Deferred tax – *continued***

The following is the analysis of the deferred tax balances for balance sheet purposes:

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Deferred tax liabilities   |               |               |
| – Deferred tax liability to be recovered after more than 12 months | 581           | 59            |
| – Deferred tax liability to be recovered within 12 months          | 74            | 15            |
|  | 655           | 74            |
| Deferred tax assets  |               |               |
| – Deferred tax liability to be recovered after more than 12 months | –             | –             |
| – Deferred tax liability to be recovered within 12 months          | –             | (52)          |
|  | 655           | 22            |

At the balance sheet date, the Company has unused tax losses of £61,000 (2006: £61,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses as the timing of their utilisation is not certain for when they can be offset against profits in the company in which they arise.

**24. Bank loan**

*Group and Company*

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Bank loan   | 4,388         | 3,547         |
| The borrowings are repayable as follows:  |               |               |
| On demand or within one year  | 972           | 945           |
| In the second year  | 972           | 945           |
| In the third year   | 972           | 945           |
| In the fourth year  | 972           | 712           |
| In the fifth year   | 500           | –             |
|   | 4,388         | 3,547         |
| Less: Amounts due for settlement within 12 months (shown under current liabilities) | (972)         | (945)         |
| Amounts due for settlement after 12 months  | 3,416         | 2,602         |

The carrying amounts of the Group's borrowings are all denominated in sterling and approximate their fair values.

The effective average interest rate paid was as follows:

|           | 2007 | 2006 |
|-----------|------|------|
| Bank loan | 7.6% | 7.1% |

The bank loan comprises a term loan and a revolver loan.

The term loan has a balance at the year end of £4.5million (2006: £3.6million), repayable in 6 monthly instalments until January 2012. The interest rate has been fixed at 7.6% until January 2009, at which point interest will revert to LIBOR plus 1.8% unless other hedging arrangements are entered into. The loan is secured by a fixed and floating charge over the Group's assets.

The revolver loan has a balance of nil at the year end (2006: £nil). The facility is available up to a maximum of £3.5million until January 2012. The interest rate is floating at LIBOR plus 1.8%. The loan is secured by a fixed and floating charge over the Group's assets.

## 25. Obligations under finance leases

| <i>Group</i>                               | <b>Gross<br/>2007<br/>£'000</b> | <b>Gross<br/>2006<br/>£'000</b> | <b>Net<br/>2007<br/>£'000</b> | <b>Net<br/>2006<br/>£'000</b> |
|--|---------------------------------|---------------------------------|-------------------------------|-------------------------------|
| Due within one year                        | 186                             | 11                              | 159                           | 10                            |
| Due in one to five years                   | 136                             | –                               | 118                           | –                             |
|  | 322                             | 11                              | 277                           | 10                            |
| Less future finance charges                | (45)                            | (1)                             |                               |                               |
| Present value of finance lease obligations | 277                             | 10                              |                               |                               |
| Current                                    |                                 |                                 | 159                           | 10                            |
| Non-current                                |                                 |                                 | 118                           | –                             |
| Total obligations under finance leases     |                                 |                                 | 277                           | 10                            |

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximate to their carrying amount.

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 4.4 years (2006: 1 year). The average effective borrowing rate was 4.3% (2006: 4.5%). All leases are on a fixed, repayable basis and no arrangements have been entered into for contingent rental payments. Finance lease obligations included above are secured against the assets concerned.

## 26. Reconciliation of cash generated from operations to profit from operations

| <i>Group</i>                            | <b>2007<br/>£'000</b> | <b>2006<br/>£'000</b> |
|---|-----------------------|-----------------------|
| Operating profit                        | 2,371                 | 1,133                 |
| Depreciation on tangible fixed assets   | 224                   | 83                    |
| Amortisation of intangible fixed assets | 134                   | 11                    |
| Profit on disposal of fixed assets      | –                     | (2)                   |
| Profit on disposal of investments       | –                     | (3)                   |
| Share-based payments                    | 100                   | 124                   |
| Increase in stocks                      | (366)                 | (397)                 |
| Increase in debtors                     | (669)                 | (130)                 |
| Increase in creditors                   | 663                   | 54                    |
| Cash generated from operations          | 2,457                 | 873                   |

## 27. Analysis of net debt

| <i>Group</i>                 | <b>31 December<br/>2006<br/>£'000</b> | <b>Acquisitions<br/>£'000</b> | <b>New finance<br/>leases<br/>£'000</b> | <b>Cash flow<br/>£'000</b> | <b>Non-cash<br/>changes<br/>£'000</b> | <b>31 December<br/>2007<br/>£'000</b> |
|------------------------------|---------------------------------------|-------------------------------|---|----------------------------|---------------------------------------|---------------------------------------|
| Finance leases – current     | (10)                                  | (150)                         | (57)                                    | 147                        | (89)                                  | (159)                                 |
| Finance leases – non-current | –                                     | (92)                          | (115)                                   | –                          | 89                                    | (118)                                 |
| Banks loan – current         | (945)                                 | (741)                         | –                                       | 714                        | –                                     | (972)                                 |
| Bank loan – non-current      | (2,602)                               | –                             | –                                       | (786)                      | (28)                                  | (3,416)                               |
| Debt                         | (3,557)                               | (983)                         | (172)                                   | 75                         | (28)                                  | (4,665)                               |
| Cash at bank and in hand     | 1,172                                 | 174                           | –                                       | 2,043                      | –                                     | 3,389                                 |
| Net debt                     | (2,385)                               | (809)                         | (172)                                   | 2,118                      | (28)                                  | (1,276)                               |

## 28. Acquisition of subsidiaries

### Brunel Healthcare Limited

On 23 January 2007, the Group acquired 100 per cent of the issued share capital of Brunel Healthcare Limited for consideration of £4.2 million including directly attributable costs. The transaction has been accounted for by the purchase method of accounting.

On 16 October 2007, the Group announced that Brunel Healthcare Limited had exceeded targets set for profit that would see the vendors receive a further £1.5 million in consideration. All conditions for receiving the further consideration have now been met, and the liability recognised in these financial statements. The consideration will be paid in two amounts, £0.8 million in March 2008 and £0.7 million in March 2009. Under IFRS, the deferred consideration has been discounted to the fair values at the point of recognition, resulting in a non-cash interest charge to the consolidated income statement.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

|                                      | Book<br>value<br>£'000 | Fair value<br>adjustments<br>£'000 | Fair value<br>£'000 |
|--------------------------------------|------------------------|------------------------------------|---------------------|
| Net assets acquired:                 |                        |                                    |                     |
| Property, plant and equipment        | 705                    | –                                  | 705                 |
| Intangible assets                    | –                      | 1,462                              | 1,462               |
| Inventories                          | 1,989                  | –                                  | 1,989               |
| Trade receivables                    | 1,835                  | (20)                               | 1,815               |
| Other receivables                    | 92                     | –                                  | 92                  |
| Cash at bank                         | 174                    | –                                  | 174                 |
| Trade payables                       | (2,349)                | –                                  | (2,349)             |
| Other payables                       | (608)                  | 11                                 | (597)               |
| Borrowings                           | (741)                  | –                                  | (741)               |
| Finance leases liability             | (242)                  | –                                  | (242)               |
| Deferred tax liability               | (151)                  | (439)                              | (590)               |
|                                      | 704                    | 1,014                              | 1,718               |
| Goodwill                             |                        |                                    | 3,903               |
| Total consideration                  |                        |                                    | 5,621               |
| Satisfied by:                        |                        |                                    |                     |
| Cash                                 |                        |                                    | 4,000               |
| Deferred consideration               |                        |                                    | 1,419               |
| Directly attributable costs          |                        |                                    | 202                 |
| Net cashflow arising on acquisition: |                        |                                    |                     |
| Cash consideration paid              |                        |                                    | (4,202)             |
| Cash acquired                        |                        |                                    | 174                 |
|                                      |                        |                                    | (4,028)             |

The goodwill arising on the acquisition of Brunel Healthcare Limited is attributable to the anticipated revenue of the distribution of the Group's products in new and existing markets and the anticipated future operating synergies from the combination.

The fair value adjustment to intangible assets relates to the recognition of separately identifiable intangible assets on acquisition under IFRS. Brunel Healthcare Limited has several long standing customer relationships, and these are considered to be sufficiently separable to be worthy of separate recognition.

The fair value adjustment to trade receivables relates to adjustments to trading accounts following acquisition. The fair value adjustment to other payables relates to adjustments to corporation tax payable at the time of acquisition. The fair value adjustment to deferred tax liability relates to the recognition of intangible assets, and changes in the expected future rate of tax.

Brunel Healthcare Limited contributed £12.9 million revenue and £1.3 million profit before tax for the period between the date of acquisition and the balance sheet date. If this acquisition had occurred on 1 January 2007 Group revenue would have been £21.9 million and profit before tax £1.8 million.

### Health Products for Life Limited

On 4th July 2007, the Group acquired 100 per cent of the issued share capital of Health Products for Life Limited for consideration of £535,000 including directly attributable costs. This includes consideration of £200,000 that is unconditionally payable in July 2008. The transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

|                                      | Book<br>value<br>£'000 | Fair value<br>adjustments<br>£'000 | Fair value<br>£'000 |
|--------------------------------------|------------------------|------------------------------------|---------------------|
| Net assets acquired:                 |                        |                                    |                     |
| Intangible assets                    | –                      | 35                                 | 35                  |
| Inventories                          | 2                      | –                                  | 2                   |
| Cash at bank                         | 137                    | –                                  | 137                 |
| Trade payables                       | (11)                   | –                                  | (11)                |
| Other payables                       | (2)                    | –                                  | (2)                 |
| Corporation tax                      | (15)                   | –                                  | (15)                |
| Post acquisition dividend            | (108)                  | –                                  | (108)               |
|                                      | 3                      | 35                                 | 38                  |
| Goodwill                             |                        |                                    | 497                 |
| Total consideration                  |                        |                                    | 535                 |
| Satisfied by:                        |                        |                                    |                     |
| Cash                                 |                        |                                    | 291                 |
| Deferred consideration               |                        |                                    | 200                 |
| Directly attributable costs          |                        |                                    | 44                  |
| Net cashflow arising on acquisition: |                        |                                    |                     |
| Cash consideration paid              |                        |                                    | (335)               |
| Cash acquired                        |                        |                                    | 29                  |
|                                      |                        |                                    | (306)               |

The goodwill arising on the acquisition of Health Products for Life Limited is attributable to the anticipated revenue of the distribution of the Group's products in new and existing markets and the anticipated future operating synergies from the combination.

The fair value adjustment to intangible assets is recognition of the value of the customer database at the time of the acquisition.

Health Products for Life Limited contributed £0.2 million revenue and nil profit before tax for the period between the date of acquisition and the balance sheet date. If this acquisition had occurred on 1 January 2007 Group revenue would have been £21.7 million and profit before tax £1.9 million

## 29. Operating lease arrangements

### The Group as lessee

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 336           | 159           |

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Within one year                        | 333           | 159           |
| In the second to fifth years inclusive | 768           | 386           |
| Over five years                        | 1,023         |               |
|  | 2,124         | 545           |

Operating lease payments represent rentals payable by the Group for certain of its office properties and for certain equipment. Leases are negotiated for an average term of 7 years and rentals are fixed for an average term of 4 years.

**30. Financial instruments recognised in the Balance Sheet**

*Group*

|  | Loans<br>and Other<br>Receivables<br>2007<br>£'000 | Available<br>for sale<br>2007<br>£'000 | Total<br>2007<br>£'000                             | Loans<br>and Other<br>Receivables being<br>Total<br>2006<br>£'000 |
|--|--|--|--|---|
| <b>Non-current financial assets</b>      |  |  |  |   |
| Financial asset investments              | –  | 350                                    | 350  | –   |
| <b>Current financial assets</b>          |  |  |  |   |
| Trade and other receivables              | 3,701  | –                                      | 3,701  | 1,136   |
| Cash and cash equivalents                | 3,389  | –                                      | 3,389  | 1,172   |
|  | 7,090  | –                                      | 7,090  | 2,308   |
| <b>Total</b>                             | <b>7,090</b>                                       | <b>350</b>                             | <b>7,440</b>                                       | <b>2,308</b>  |
|  |  |  | Other<br>financial<br>liabilities<br>2007<br>£'000 | Other<br>financial<br>liabilities<br>2006<br>£'000                |
| <b>Non-current financial liabilities</b> |  |  |  |   |
| Trade and other payables                 |  |  | 676  | –   |
| Bank loan                                |  |  | 3,416  | 2,602   |
| Obligations under finance leases         |  |  | 118  | –   |
|  |  |  | 4,210  | 2,602   |
| <b>Current financial assets</b>          |  |  |  |   |
| Trade and other payables                 |  |  | 5,298  | 758   |
| Bank loan                                |  |  | 972  | 945   |
| Obligations under finance leases         |  |  | 159  | 10  |
|  |  |  | 6,429  | 1,713   |
| <b>Total</b>                             |  |  | <b>10,639</b>                                      | <b>4,315</b>  |

Company

|  | Loans<br>and Other<br>Receivables<br>2007<br>£'000 | Available<br>for sale<br>2007<br>£'000 | Total<br>2007<br>£'000                             | Loans<br>and Other<br>Receivables being<br>Total<br>2006<br>£'000 |
|--|--|--|--|---|
| <b>Non-current financial assets</b>      |  |  |  |   |
| Financial asset investments              | –  | 350                                    | 350  | –   |
| <b>Current financial assets</b>          |  |  |  |   |
| Trade and other receivables              | 1,346  | –                                      | 1,346  | 149   |
| Cash and cash equivalents                | 1,293  | –                                      | 1,293  | 493   |
|  | 2,639  | –                                      | 2,639  | 642   |
| Total                                    | 2,639  | 350                                    | 2,989  | 642   |
|  |  |  | Other<br>financial<br>liabilities<br>2007<br>£'000 | Other<br>financial<br>liabilities<br>2006<br>£'000                |
| <b>Non-current financial liabilities</b> |  |  |  |   |
| Trade and other payables                 |  |  | 676  | –   |
| Bank loan                                |  |  | 3,416  | 2,602   |
|  |  |  | 4,092  | 2,602   |
| <b>Current financial assets</b>          |  |  |  |   |
| Trade and other payables                 |  |  | 1,639  | 679   |
| Bank loan                                |  |  | 972  | 945   |
|  |  |  | 2,611  | 1,624   |
| Total                                    |  |  | 6,703  | 4,226   |

## 31. Share-based payments

### Equity-settled share option scheme

The Company has a share option scheme for certain employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is two years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options may be forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

|                                      | 2007                          |   | 2006                          |   |
|--------------------------------------|-------------------------------|---|-------------------------------|---|
|                                      | Number<br>of share<br>options | Weighted<br>average<br>exercise<br>price<br>pence | Number<br>of share<br>options | Weighted<br>average<br>exercise<br>price<br>pence |
| Outstanding at the start of the year | 24,869,582                    | 11.0  | 20,869,582                    | 10.7  |
| Granted during the year              | 2,500,000                     | 12.5  | 4,000,000                     | 12.5  |
| Outstanding at the end of the year   | 27,369,582                    | 11.2  | 24,869,582                    | 11.0  |
| Exercisable at the end of the year   | 20,869,582                    |   | Nil                           |   |

The options outstanding at the end of the year have a weighted average remaining contractual life of 8.0 years with a range of exercise prices of 10p to 13.5p. Further details are given in the Report on Directors' Remuneration on page 16.

### 31. Share-based payments – *continued*

In 2007, options were granted on 16 October. The estimated fair values of the options granted on those dates are £61,000. The weighted average fair value per option is 2.5p

In 2006, options were granted on 24 October. The estimated fair values of the options granted on those dates are £46,000. The weighted average fair value per option is 1.1p.

In 2005, options were granted on 4 February, 10 February, 31 August and 14 November. The estimated fair values of the options granted on those dates are £21,000, £25,000, £155,000, and £40,000 respectively. The weighted average fair value per option is 1.2p.

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

|                                 | 2007       | 2006       |
|---------------------------------|------------|------------|
| Weighted average share price    | 12.5 pence | 12.5 pence |
| Weighted average exercise price | 12.5 pence | 12.5 pence |
| Expected volatility             | 25%        | 7%         |
| Expected life                   | 3.5 years  | 2 years    |
| Risk free rate                  | 5.0%       | 4.5%       |
| Expected dividend yield         | Nil        | Nil        |

Expected volatility was determined by analysing the historical volatility of the Company's share price for the full period preceding the date of grant, and considering peer groups within the sector. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value has been discounted to reflect the performance conditions attached to the share options.

The Group recognised total expenses of £100,000 (2006: £124,000) related to equity-settled share based payment transactions during the year, of which £100,000 (2006: £119,000) relates to directors of the Group (see note 34)

### 32. Events after the balance sheet date

On 3 February 2008 NeutraHealth acquired product licenses and the brands of Gerard House and Galloways from Potters Limited for £400,000.

### 33. Contingent liabilities

As part of the acquisition of Nutrigold Limited, a deferred consideration mechanism was agreed for payments once target growth up until December 2009 had been achieved. The maximum amount payable under this agreement is £333,000.

At the year end no deferred consideration was payable. In the opinion of the directors, it is not possible to measure reliably whether deferred consideration will be payable in the future.

### 34. Related party transactions

#### Distribution agreement

BioCare Limited, a subsidiary company, reached an outsourcing agreement in March 2006 to administer the sales and distribution operations of Sage Organic Limited. Non-executive Directors A B M Good Esq and Sir G K Noon are major shareholders in Sage Organic Limited and A B M Good Esq is a Director.

During the year, BioCare Limited made sales to Sage Organic Limited of £34,000 (2006:£48,000). At 31 December 2007, Sage Organic Limited owed BioCare Limited £32,000 (2006: £44,000.)

#### Compensation of key management personnel

The remuneration of the directors, who are the key management of the Group during the year, was as follows:

|                      | 2007<br>£'000 | 2006<br>£'000 |
|----------------------|---------------|---------------|
| Wages and salaries   | 469           | 216           |
| Bonus                | 25            | 5             |
| Benefits in kind     | 3             | 3             |
| Aggregate emoluments | 497           | 224           |
| Share option charge  | 100           | 124           |
|                      | 597           | 348           |

The remuneration in respect of the highest paid director was:

|            | 2007<br>£'000 | 2006<br>£'000 |
|------------|---------------|---------------|
| Emoluments | 126           | 86            |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The equity settled share option scheme details in note 31 presents the number of share options held by directors. There are no share options in issue to employees who are not directors.

None of the directors have pension plans.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of NeutraHealth plc (the "Company") will be held at 12 noon on 16 April 2008 at the offices of Baker Tilly, 2 Bloomsbury Street, London, WC1B 3ST for the following purposes:

### **Ordinary business**

1. To receive and adopt the Company's Report and Accounts for the year ended 31 December 2007, the Directors' Report and the Auditors' Report on those accounts.
2. To re-appoint Baker Tilly LLP to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the Directors to fix their remuneration.
3. To reappoint J Saxena retiring by rotation in accordance with the Company's articles of association.
4. To reappoint Z Hydari retiring by rotation in accordance with the Company's articles of association.

### **Special business**

To consider and, if thought fit, to pass the following resolutions of which resolution 5 will be proposed as an ordinary resolution and resolutions 6 and 7 will be proposed as special resolutions:

5. In substitution for all existing authorities, the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities in accordance with section 80 of the Companies Act 1985 ("the Act") up to a maximum aggregate nominal amount of £1,759,851 (representing 10 per cent. of the Company's issued ordinary share capital), provided that this authority will expire 15 months after the date this resolution is passed or the next Annual General Meeting of the Company, whichever occurs first.
6. Subject to the passing of resolution 5, the Directors be and they are hereby empowered generally and unconditionally in accordance with section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by resolution 5 above as if section 89(1) of the Act did not apply to the allotment provided that such power shall be limited to a maximum aggregate nominal amount of £1,759,851.
7. The Company be and is generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 10 pence each in the capital of the Company provided that:-
  - (a) The maximum aggregate number of ordinary shares authorised to be purchased is 8,799,257 (representing 5 per cent. of the Company's issued ordinary share capital).
  - (b) The minimum price (exclusive of expenses) which may be paid for such shares is 10 pence per share.
  - (c) The maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased.
  - (d) Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting.
  - (e) The Company may make a contract or contracts to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of its own shares pursuant to any such contract.

By order of the Board

*Registered Office:*

180 Lifford Lane  
Kings Norton  
Birmingham B30 3NU

**Robin Hilton FCA**  
*Company Secretary*

17 March 2008

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or notarially certified copy of such authority) must be deposited at the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time and date for holding the Meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.
3. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 14 April 2008. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provide(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the company's registrars no later than 14 April 2008.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the relevant register of members of the Company at close of business on 14 April 2008 shall be entitled to attend and vote at the Annual General Meeting or, if the Meeting is adjourned, close of business on such date being not more than two days prior to the date fixed for the adjourned meeting. Changes to entries on the register of members after close of business on 14 April 2008 shall be disregarded in determining the right of any person to attend or vote at the Meeting.



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W: [www.bruhealth.co.uk](http://www.bruhealth.co.uk)



W: [www.nutri-gold.com](http://www.nutri-gold.com)

W: [www.healthproductsforlife.com](http://www.healthproductsforlife.com)