

Blue Square Limited

COMPANY NUMBER : 3796653

BLUE SQUARE LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2005



## **BLUE SQUARE LIMITED**

### **DIRECTORS' REPORT for the year ended 31 December 2005**

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The directors present their report and financial statements for the year ended 31 December 2005.

#### **Principal activities**

The principal activities of the Company comprise the provision of comprehensive online fixed odds betting services aimed at the entertainment gaming market within the UK.

#### **Review of business and future developments**

The year end position was satisfactory. The aim for the future is to offer a wide range of betting opportunities across multiple interactive platforms in an entertaining and fun environment, focusing on the leisure gaming market and attracting as broad a spectrum of the population to its service as possible.

#### **Results and dividends**

The audited financial statements for the year ended 31 December 2005 are set out on pages 7 to 28. The profit for the period after taxation was £3,181,000 (2004 : £5,565,000).

The directors do not recommend the payment of a dividend (2004 : £nil).

#### **Directors and their interests**

The following were directors of the Company during the year:

M D Belsham  
C B A Cormick (resigned 31 October 2005)  
I Dyson (resigned 24 June 2005)  
N G Rose  
M E Smith (resigned 6 March 2006)  
N J Sibley (resigned 1 August 2005)  
P M Coles (appointed 1 November 2005)  
I Burke (appointed 3 April 2006)

# BLUE SQUARE LIMITED

## DIRECTORS' REPORT for the year ended 31 December 2005

### Directors' interests

The directors' interests in shares or stocks of The Rank Group Plc, including options to purchase ordinary shares under the terms of the Group's Executive Share Option Schemes ("ESOS") and Share Savings Schemes ("SAYE") were as follows:-

	Ordinary Shares	31 December 2005			Exercise Price (p)	1 January 2005		
		ESOS	SAYE			Ordinary Shares	ESOS	SAYE
M D Belsham	-	125,041	-	239.92p	-	-	125,041	-
	-	38,585	-	320.33p	-	-	38,585	-
	-	50,361	-	277.83p	-	-	-	-
	-	-	4,947	191.00p	-	-	-	4,947
	-	-	3,516	268.00p	-	-	-	3,516
P M Coles	-	90,149	-	299.50p	-	-	-	-
N G Rose	-	20,613	-	276.50p	-	-	20,613	-
	-	14,048	-	320.33p	-	-	14,048	-
	-	21,693	-	277.83p	-	-	-	-
	-	-	4,947	191.00p	-	-	-	4,947
M E Smith	400,000	600,000	-	226.25p	400,000	600,000	-	-
	-	244,464	-	271.00p	-	244,464	-	-
	-	178,184	-	239.92p	-	178,184	-	-
	-	112,383	-	320.33p	-	112,383	-	-
	-	146,666	-	277.83p	-	-	-	-

Note: In addition to the above M D Belsham has been granted conditional awards totalling 83,857 ordinary shares; and in addition to the above M E Smith has been granted conditional awards totalling 424,987 ordinary shares under the terms of the Rank Group 2000 Long Term Incentive Plan.

Options to subscribe for ordinary shares of The Rank Group Plc granted to and exercised by directors in the year ended 31 December 2005 are set out below. Except as stated, no options lapsed during the year.

	Granted		Lapsed		Exercised		Price per Option (p)	Market Price at date of exercise (p)
	ESOS	SAYE	ESOS	SAYE	ESOS	SAYE		
M D Belsham	50,361	-	-	-	-	-	277.83	-
P M Coles	90,149	-	-	-	-	-	299.50	-
N G Rose	21,693	-	-	-	-	-	277.83	-
M E Smith	146,666	-	-	-	-	-	277.83	-

The market price of an ordinary share at 31 December 2005 was 305.75p and the range during the preceding 12 months was 250.00p to 322.50p. Options outstanding at 31 December 2005 are exercisable at various dates between 27 March 2006 and 2 October 2015.

In addition to the above interests, pursuant to the requirements of the Companies Act 1985, each director is deemed to be interested in the ordinary shares of The Rank Group Plc held by The Rank Group Plc Employee Benefit Trust. At 1 January 2005 the interest was in a total of 824,895 ordinary shares and at 31 December 2005 the interest was in a total of 202,852 ordinary shares.

**BLUE SQUARE LIMITED**

**DIRECTORS' REPORT for the year ended 31 December 2005**

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The Company's Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

Except as stated above, none of the directors had any interest in the shares, share options, stocks or debentures of the Company, its ultimate parent undertaking or any subsidiary of that Company at 1 January 2005 or at 31 December 2005.

## **BLUE SQUARE LIMITED**

### **DIRECTORS' REPORT for the year ended 31 December 2005**

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#### **Statement of directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Audit information**

The directors are satisfied that there is no information needed by the Company's auditors in connection with preparing their audit report of which the auditors are unaware. The directors have taken all steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Auditors**

In accordance with s386(2) of the Companies Act 1985, PricewaterhouseCoopers LLP will continue as auditors of the Company under the terms of an elective resolution passed by the Company.

By order of the Board



Secretary

Registered Office:  
6 Connaught Place  
London, W2 2EZ.

18 October 2006

**BLUE SQUARE LIMITED**  
**INDEPENDENT AUDITORS' REPORT**  
**to the members of Blue Square Limited**

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We have audited the financial statements of Blue Square Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**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 are set out in the Statement of Directors' Responsibilities included within the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**BLUE SQUARE LIMITED**  
**INDEPENDENT AUDITORS' REPORT**  
**to the members of Blue Square Limited**

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**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

*PricewaterhouseCoopers LLP*

*Chartered Accountants and Registered Auditors*

*1 Embankment Place*

*London*

*WC2N 6RH*

*18 October 2006*

**BLUE SQUARE LIMITED****INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 £000s	2004 £000s
Revenue	1B	19,031	21,900
Cost of sales		(6,134)	(5,766)
Gross profit		12,897	16,134
Other operating costs		(9,914)	(8,570)
Operating profit	2	2,983	7,564
Financing:			
- Interest payable and similar charges	3	-	(2)
- Interest receivable	3	794	583
Total financing charge		794	581
Profit before tax		3,777	8,145
Taxation	4,7	(596)	(2,580)
Profit for the year	12	3,181	5,565
Settled Stakes		344,334	336,377

All results are from continuing operations.



**BLUE SQUARE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2005**

	Note	2005 £000s	2004 £000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	5	2,284	1,933
Property plant and equipment	6	1,757	2,151
Financial assets:			
- <i>Investment in subsidiaries</i>		1,402	1,524
- <i>Investments</i>		7	-
Deferred tax assets	7	5,030	5,415
		<u>10,480</u>	<u>11,023</u>
<b>Current assets</b>			
Trade and other receivables	8	12,554	7,985
Cash and cash equivalents	14	8,992	6,056
		<u>21,546</u>	<u>14,041</u>
<b>Current liabilities</b>			
Trade and other payables	9	(12,022)	(8,347)
		<u>20,004</u>	<u>16,717</u>
<b>Net assets</b>			
<b>Shareholder's equity</b>			
Ordinary share capital	11	154	154
Share premium account	12	855	855
Other reserves	12	18,995	15,708
<b>Total equity</b>	12	<u>20,004</u>	<u>16,717</u>

The notes on pages 11 to 28 are an integral part of these financial statements.

These accounts were approved by the Board on 18 October 2006 and signed on its behalf by:



M Belsham



Date: 18/10/2006

**BLUE SQUARE LIMITED**  
**STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**For the year ended 31 December 2005**

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	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Profit for the financial year	3,181	5,565
Currency translation net of tax and hedging	-	-
Total recognised income for the year	<u>3,181</u>	<u>5,565</u>

**BLUE SQUARE LIMITED****CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005**

	2005 £m	2004 £m
<b>Cash flows from operating activities</b>		
Cash generated from operations	4,051	3,233
Interest paid	-	(2)
Interest received	794	583
<b>Net cash from operating activities</b>	<b>4,845</b>	<b>3,814</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries (net of cash acquired)	(63)	(82)
Acquisition of listed investments	(7)	-
Proceeds from sale of property, plant and equipment	6	8
Purchase of property, plant and equipment	(1,515)	(1,829)
<b>Net cash used in investing activities</b>	<b>(1,579)</b>	<b>(1,903)</b>
<b>Cash flows from financing activities</b>		
Finance lease principal payment	(330)	(315)
<b>Net cash used in financing activities</b>	<b>(330)</b>	<b>(315)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,936</b>	<b>1,596</b>
Cash and cash equivalents at 1 January	6,056	4,460
<b>Cash and cash equivalents at 31 December</b>	<b>8,992</b>	<b>6,056</b>

# **BLUE SQUARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **1 Accounting policies**

The principal accounting policies adopted in the preparation of this financial information are set out below.

#### **A Basis of preparation**

The basis of preparation and accounting policies used in preparing the Company's financial information from 1 January 2005 is set out below. The basis of preparation describes how IFRS has been applied under IFRS 1, the assumptions made by the Company about the Standards and Interpretations expected to be effective, and the policies adopted by the Company.

From 1 January 2005, the Company's financial statements will be prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial information will be prepared under the historical cost convention as modified by the revaluation of available for sale investments and, financial assets and liabilities held for trading. A summary of the more important company accounting policies is set out below. Except where noted below, these policies have been consistently applied.

The preparation of financial information, in conformity with GAAP, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in the relevant accounting policies discussed below. The best estimate of the directors may differ from the actual result.

#### **Changes in Accounting Policy**

On transition to IFRS, the Company recognised all assets and liabilities as required by IFRS and derecognised all assets and liabilities not permitted by IFRS. Assets and liabilities were all measured in accordance with IFRS. Except where noted below, IFRS recognition and measurement principles were applied retrospectively.

The impact of transition to IFRS on the Company's shareholders' funds as at 1 January 2004 and 31 December 2004, and the Company's income statement for the period ended 31 December 2004 is discussed in note 18.

## **BLUE SQUARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **B Revenue recognition**

##### *Gaming win*

Revenue for Blue Square including sportsbetting and online casinos represents gross win margin. Although disclosed as revenue, gaming win meets the definition of a gain under IAS 39.

##### *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

#### **C Financial instruments**

Management has elected not to apply IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement" to the Group's shareholders funds as at 1 January 2004 and 31 December 2004, and the Company's income statement for the period ended 31 December 2004. For these periods, the company has recognised Financial Instruments as previously accounted for under UK GAAP as set out in the Company's statutory financial statements for the year ended 31 December 2004.

All non-derivative financial assets and liabilities, including non-equity accounted investments have been designated and measured as appropriate. Where financial instruments are remeasured to reflect the fair value of the instrument, any changes in fair value are taken to the Income Statement or directly to reserves, as appropriate.

Following clarification of IAS 39, betting and internet gaming transactions are now shown net within the revenue line of the income statement i.e. stakes less payouts, known as gross win. There is no impact on gross profit. For the purposes of meaningful comparison, 2004 comparatives have been presented on a comparable basis. The impact is to decrease both revenue and cost of sales by £325.4m (2004: £314.5m).

Income from gaming win is recognised under IAS 39 as gaming win falls within the definition of financial instruments.

#### **D Leases**

Leases are tested to determine whether the lease is a finance or operating lease and treated accordingly. Property leases comprising a lease of land and a lease of buildings within a single contract are split into its two component parts before testing.

##### *Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of lease incentives or premiums, are charged on the income statement on a straight-line basis over the period of the lease.

## **BLUE SQUARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **E Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Equipment and others 3 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Pre-opening costs are expensed to the income statement as incurred.

#### **F Intangible assets**

##### *Computer software and other development costs*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (four to ten years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs for software development.

Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives (4 years).

## **BLUE SQUARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **G Employee benefit costs**

##### *Pension obligations*

The company participates in a group pension schemes operated by The Rank Group Plc.

The scheme is contracted out of the State Second Pension arrangements. The scheme is externally funded under a separate trust. The Rank Pension Plan is a defined benefit scheme. However, the contributions paid by the company are accounted as if the scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the scheme.

The benefits are fixed by reference to final pay and length of service of employee's across the group.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and emerging investment performance. The company's contributions to the defined contribution scheme are recognised when due and, in the year to 31 December 2005, totalled £92,000 (2004: £106,000).

##### *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

##### *Holiday pay*

The Company recognises an appropriate liability for the cost of holiday entitlements not taken at the balance sheet date.

#### **H Taxation**

Current tax is applied to taxable profits at the rates ruling in the relevant country.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

#### **H Taxation (continued)**

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

# **BLUE SQUARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **I Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **J Trade receivables**

Trade receivables are carried at original invoice amount, including value added tax, less an estimate made for doubtful receivables based on a review of all outstanding amounts at the period end and on historical performance. Bad debts are written off during the period in which they are identified. Management assess the maturity of the trade receivables and consequently report them as current, if falling due within one year, or non current, as appropriate.

### **K New standards and interpretations not applied**

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective
IFRS7	Financial Instruments: Disclosure	1 January 2007
IAS1	Amendment – Presentation of Financial statements; Capital Disclosures	1 January 2007
IAS39	Fair Value Option	1 January 2006
IAS39	Cash Flow Hedge Accounting	1 January 2006
IFRIC4	Determining whether an arrangement contains a lease	1 January 2006

In addition, the IASB and IFRIC have issued a number of standards and interpretations that are not applicable to the company.

The directors do not anticipate that the adoption of the other standards and interpretations listed above will have a material impact on the Company's financial statements in the period of initial application.



**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**2 Profit for the year**

The following items have been included in arriving at profit for the year:

	Note	2005 £000s	2004 £000s
Staff costs	15	4,269	3,940
Depreciation of property, plant and equipment			
- Owned assets	6	803	779
- Under finance leases	6	112	112
Amortisation of intangibles	5	757	539
Profit on disposal of fixed assets		(4)	(1)
Operating lease rentals payable			
- Minimum lease payments		458	437
Auditors' remuneration for audit services		32	25
		<u>6,427</u>	<u>5,831</u>

**3 Financing**

	2005 £000s	2004 £000s
Interest expense:		
Interest payable on bank borrowings	-	(2)
Total interest and similar charges payable	<u>-</u>	<u>(2)</u>
Interest income:		
Interest receivable on bank and other balances	265	252
Interest receivable from Group companies	529	331
Total interest receivable	<u>794</u>	<u>583</u>
<b>Total financing</b>	<u>794</u>	<u>581</u>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**4 Tax on profit**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Current tax:		
UK corporation tax on profits of the period	237	-
Adjustment in respect of prior years	(26)	211
Deferred tax:		
Origination and reversal of timing differences	956	2,457
Adjustment in respect of prior years	(571)	(88)
	<u>596</u>	<u>2,580</u>

The tax on the Company's profit before tax differs from the standard rate of UK Corporation tax (30%). The differences are explained below:

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Profit before tax	<u>3,778</u>	<u>8,053</u>
Tax calculated at 30% (2004: 30%)	1,133	2,416
Expenses not deductible for tax purposes	60	41
Adjustment in respect of prior years	(597)	123
Total Taxation	<u>596</u>	<u>2,580</u>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**5 Intangibles**

<b>Intangible Assets</b>	<b>Computer software and development costs £000s</b>
<b>Cost</b>	
At 1 January 2004	1,030
Additions - internally generated	1,281
Transfers	1,143
<b>At 1 January 2005</b>	<b>3,454</b>
Additions - internally generated	992
Transfers	116
<b>At 31 December 2005</b>	<b>4,562</b>
<b>Aggregate amortisation and impairment</b>	
At 1 January 2004	500
Charge for the period	539
Transfers	482
<b>At 1 January 2005</b>	<b>1,521</b>
Charge for the period	757
<b>At 31 December 2005</b>	<b>2,278</b>
<b>Net book value at 31 December 2003</b>	<b>529</b>
<b>Net book value at 31 December 2004</b>	<b>1,933</b>
<b>Net book value at 31 December 2005</b>	<b>2,284</b>

All amortisation charges in the year have been charged through operating profit.

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**6 Property, plant and equipment**

	<b>Fixtures, Fittings, plant and machinery £000s</b>
<b>Cost</b>	
At 1 January 2004	4,466
Additions at cost	547
Transfers	993
Disposals	(7)
<b>At 1 January 2005</b>	<b>5,999</b>
Additions at cost	524
Disposals	(6)
<b>At 31 December 2005</b>	<b>6,517</b>
<b>Aggregate depreciation</b>	
At 1 January 2004	2,580
Charge for the year	891
Transfers	378
Disposals	(1)
<b>At 1 January 2005</b>	<b>3,848</b>
Charge for the year	915
Disposals	(3)
<b>At 31 December 2005</b>	<b>4,760</b>
<b>Net book value at 31 December 2003</b>	<b>1,886</b>
<b>Net book value at 31 December 2004</b>	<b>2,151</b>
<b>Net book value at 31 December 2005</b>	<b>1,757</b>

Included in assets held under finance leases are plant and equipment with a cost of £462,000 (2004: £462,000) and a net book value of £105,000 (2004: £217,000). Depreciation of £112,000 (2004: £112,000) was charge in the year on these assets.

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**7 Deferred tax**

Deferred tax is included in the balance sheet as follows:

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Deferred tax asset</b>		
Accelerated capital allowances	1,697	1,057
Tax losses carried forward	3,322	4,343
Other temporary differences	11	15
	<hr/>	<hr/>
Deferred tax asset	5,030	5,415
	<hr/>	<hr/>

The deferred tax included in the group income statement is as follows:

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Deferred tax in the income statement</b>		
Accelerated capital allowances	(640)	(354)
Tax losses carried forward	1,021	2,733
Other temporary differences	4	(10)
	<hr/>	<hr/>
Deferred income tax expense	385	2,369
	<hr/>	<hr/>

**8 Trade and other receivables**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Amounts falling due within one year</b>		
Amounts owed by fellow subsidiary undertakings	12,102	7,497
Other receivables	58	9
Prepayments and accrued income	394	479
	<hr/>	<hr/>
	12,554	7,985
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**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**9 Trade and other payables – current**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Trade payables	742	407
Amounts owed to fellow subsidiary undertakings	3,970	1,145
Other payables	4,738	3,940
Accruals	1,552	1,717
Deferred income	1,020	1,138
	<u>12,022</u>	<u>8,347</u>

Amounts owed to group undertakings are unsecured and repayable on demand. Balances with Rank Group Finance Plc are subject to interest at 1% above the National Westminster Bank Plc base rate.

**10 Financial liabilities – borrowings**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Current</b>		
Finance lease obligations	-	131
	<u>-</u>	<u>131</u>

**11 Called up share capital**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Authorised		
499,500,000 "A" ordinary shares of 1p each	4,995	4,995
500,000 "B" ordinary shares of 1p each	5	5
	<u>5,000</u>	<u>5,000</u>
	<b>2005</b>	<b>2004</b>
	<b>£ 000s</b>	<b>£000s</b>
<b>Issued and fully paid</b>		
14,884,600 "A" ordinary shares of £0.01 each	149	149
500,000 "B" ordinary shares of £0.01 each	5	5
At 31 December	<u>154</u>	<u>154</u>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**12 Shareholders' funds and statement of changes in equity**

	Share capital £000s	Share premium £000s	Other reserves £000s	Total £000s
<b>Balance at 1 January 2004</b>	154	855	10,143	11,152
Net profit for the year	-	-	5,565	5,565
<b>Balance at 31 December 2004</b>	<u>154</u>	<u>855</u>	<u>15,708</u>	<u>16,717</u>
<b>Balance at 1 January 2005</b>	<u>154</u>	<u>855</u>	<u>15,708</u>	<u>16,717</u>
Net profit for the year	-	-	3,181	3,181
Credit in respect of employee share schemes	-	-	106	106
<b>Balance at 31 December 2005</b>	<u>154</u>	<u>855</u>	<u>18,995</u>	<u>20,004</u>

**13 Cash flow from operating activities**

Reconciliation of operating profit to net cash inflow from operating activities:

**Cash generated from operations**

	2005 £000s	2004 £000s
<b>Continuing operations</b>		
Operating profit from continuing operations	2,983	7,564
Depreciation and amortisation	1,672	1,430
Decrease in working capital	(891)	(5,760)
Other items	287	(1)
<b>Cash generated from continuing operations</b>	<u>4,051</u>	<u>3,233</u>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**14 Cash and cash equivalents**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	8,992	6,056
	<u>8,992</u>	<u>6,056</u>

For the purposes of the Cash Flow statements, cash and cash equivalents comprise the following at 31 December:

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
Cash at bank and in hand	8,992	6,126
Bank overdrafts	-	(70)
	<u>8,992</u>	<u>6,056</u>

**15 Employees and directors**

	<b>2005</b>	<b>2004</b>
	<b>£000s</b>	<b>£000s</b>
<b>Staff costs for the group during the year</b>		
Wages and salaries	3,769	3,428
Social security costs	409	403
Other pension costs	91	109
	<u>4,269</u>	<u>3,940</u>

	<b>2005</b>	<b>2004</b>
<b>Average monthly number of people employed</b>		
Company	<u>100</u>	<u>105</u>

Retirement benefits are accruing to 2 directors under the company's defined benefit pension scheme.



**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**16 Lease commitments**

**Operating lease agreements where the company is lessee**

The company has entered into commercial leases on certain properties. These leases have an average duration of 8 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

<b>Company</b>	<b>2005 £000s</b>	<b>2004 £000s</b>
After five years	2,524	2,925
	<u>2,524</u>	<u>2,925</u>

**17 Related party transactions**

The Company's ultimate parent undertaking is The Rank Group Plc. The ultimate parent undertaking and controlling party is The Rank Group Plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

The Company entered into transactions during the year with the following companies in the normal course of business:

<b>Entity</b>	<b>Relationship</b>	<b>P&amp;L Impact £000s</b>	<b>Outstanding Balance £000s</b>
Rank Interactive Development Ltd	100% Sub	18	1,011
Rank Betting Ltd	Fellow Company	45	-
Blue Square (Course) Ltd	100% Sub	(162)	-
Blue Square Gaming (Alderney) Ltd	Fellow Company	11	(3,452)
Rank Group Finance Plc	Fellow Company	(380)	10,890
Rank Interactive Gaming Ltd	Fellow Company	2	(385)
Rank Interactive Gaming (Alderney) Ltd	Fellow Company	11	201
Rank Leisure Holdings Ltd	Fellow Company	(216)	(133)
Rank Group Gaming Division Ltd	Fellow Company	(4,397)	-
		<u>(5,068)</u>	<u>8,132</u>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**18 Reconciliation of net assets and profit under UK GAAP to IAS**

Blue Square Limited reported under UK GAAP in its previously published financial information for the year ended 31 December 2004. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 31 December 2004 to the revised net assets and profit under IAS as reported in this financial information. In addition, there is a reconciliation of net assets under UK GAAP to IAS at the transition date for this company, being 1 January 2004.

<b>Reconciliation of equity at 1 January 2004 (date of transition to IFRS)</b>	<b>Previous GAAP £000s</b>	<b>Effect of transition to IFRS £000s</b>	<b>IFRS £000s</b>
<b>Non-Current assets</b>			
Intangible assets	-	530	530
Property, plant and equipment	2,416	(530)	1,886
Investment in subsidiaries	1,442	-	1,442
Trade and other receivables	7,778	6	7,784
Total non-current assets	11,636	6	11,642
<b>Current assets</b>			
Trade and other receivables	2,772	-	2,772
Cash and cash equivalents	4,460	-	4,460
Total current assets	7,232	-	7,232
<b>Total assets</b>	18,868	6	18,874
<b>Current liabilities</b>			
Trade and other payables	(38,928)	(18)	(38,946)
<b>Total non-current liabilities</b>	(38,928)	(18)	(38,946)
<b>Total assets less total liabilities</b>	(20,060)	(12)	(20,072)
<b>Equity</b>			
Share capital	154	-	154
Share premium account	855	-	855
Other reserves	(21,069)	(12)	(21,081)
<b>Total equity</b>	(20,060)	(12)	(20,071)

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

<b>Reconciliation of equity at 31 December 2004 (date of transition to IFRS)</b>	<b>Previous GAAP £000s</b>	<b>Effect of transition to IFRS £000s</b>	<b>IFRS £000s</b>
<b>Non-Current assets</b>			
Intangible assets	-	1933	1933
Property, plant and equipment	4,084	(1,933)	2,151
Investment in subsidiaries	1,524	-	1,524
Trade and other receivables	5,400	15	5,415
<b>Total non-current assets</b>	<b>11,008</b>	<b>15</b>	<b>11,023</b>
<b>Current assets</b>			
Trade and other receivables	7,985	-	7,985
Cash and cash equivalents	6,056	-	6,056
<b>Total current assets</b>	<b>14,041</b>	<b>-</b>	<b>14,041</b>
<b>Total assets</b>	<b>25,049</b>	<b>15</b>	<b>25,064</b>
<b>Current liabilities</b>			
Trade and other payables	(8,316)	(31)	(8,347)
<b>Total non-current liabilities</b>	<b>(8,316)</b>	<b>(31)</b>	<b>(8,347)</b>
<b>Total assets less total liabilities</b>	<b>16,733</b>	<b>(16)</b>	<b>16,717</b>
<b>Equity</b>			
Share capital	154	-	154
Share premium account	855	-	855
Other reserves	15,724	(16)	15,708
<b>Total equity</b>	<b>16,733</b>	<b>(16)</b>	<b>16,717</b>

**BLUE SQUARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

<b>Reconciliation of profit for the year ended 31 December 2004</b>	<b>Previous GAAP £000s</b>	<b>Effect of transition to IFRS £000s</b>	<b>IFRS £000s</b>
Revenue	22,680	-	22,680
Operating profit before exceptional items	7,595	(31)	7,564
Exceptional items	-	-	-
Operating Profit after exceptional items	7,595	(31)	7,564
Non operating items	-	-	-
Finance costs (net)	581	-	581
Profit before tax	8,176	(31)	8,145
Taxation	(2,590)	10	(2,580)
<b>Profit for the period</b>	<b>5,586</b>	<b>(21)</b>	<b>5,565</b>

<b>Pre-exceptional operating profit reconciliation</b>	<b>31 December 2004 £000s</b>	<b>£000s</b>
UK GAAP- operating profit		7,595
IFRS adjustments		
- Operating lease costs	(21)	
- Employee benefit costs	(10)	
- Other	-	
IFRS adjustments		(31)
<b>2004 Operating Profit- IFRS</b>		<b>7,564</b>

**IFRS ADJUSTMENTS**

**Leases**

In accordance with SIC 15, "Operating lease incentives", operating lease incentives are spread on a straight-line basis over the lease term. Under UK GAAP, operating lease incentives were spread over the shorter of the lease term or the first market rent review. The net effect is to reduce operating profit for the year ended 31 December 2005. Net assets are reduced by £12,000 at 1 January 2004 and by £21,000 at 31 December 2004. The decrease is disclosed as an increase in trade and other accruals.

## **BLUE SQUARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Employee benefits**

In accordance with IAS 19, "Employee benefits", the Group has provided for the future incremental cost of any accrued, but unused holiday. Under UK GAAP, in line with common practice, the Group did not account for holiday pay accruals unless legally obliged to make cash settlement. The effect is to decrease operating profit by £10,000 for the year ended 31 December 2005. Net assets as at 1 January and 31 December 2004 decreased by £6,000 and £10,000 respectively.

#### **Taxation**

In accordance with IAS 12, "Income Taxes", deferred tax is recognised on the basis of taxable temporary differences, which may include permanent differences. Under UK GAAP, deferred tax was not recognised on permanent differences. The effect is to reduce the deferred tax asset at 1 January 2004 and 31 December 2004 by £6,000 and £15,000 respectively. Net profit for year ended 31 December 2004 increased by £9,000.

#### **19 Ultimate Parent Undertaking**

The directors regard The Rank Group Plc, a company incorporated in England and Wales, as the ultimate parent company and ultimate controlling party at the date of approval of these accounts.

The Rank Group Plc is also the parent company of the smallest and largest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from The Rank Group Plc, 6 Connaught Place, London, W2 2EZ.