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**COMPANY
NUMBER: 3966166**

Tangram Leisure Limited

Report and Financial Statements

Year ended

31 December 2006

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BDO Stoy Hayward
Chartered Accountants

Tangram Leisure Limited

Annual report and financial statements for the year ended 31 December 2006

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Directors

P R Cronk
P M Tory
M J Wootton

Secretary and registered office

P M Tory, Bewley House, Marshfield Road, Chippenham, Wiltshire, SN15 1JW

Company number

3966166

Auditors

BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Tangram Leisure Limited

Report of the directors for the year ended 31 December 2006

The directors present their report together with the audited financial statements for the year ended 31 December 2006

Results and dividends

The profit and loss account is set out on page 5 and shows the loss for the year

The directors do not recommend the payment of a dividend (2005- £Nil)

Principal activities, review of business and future developments

The company's principal activity is the establishment and operation of a health spa

The company's existing treatment operation continued to expand, with further treatment rooms on stream for the full year and continued growth in clientele. As a result, turnover grew 21% from its 2005 level

On 27th July 2007, the company terminated its financing arrangements with USA International Limited as the latter had failed to fulfill its contractual obligations

The company has now entered into an agreement with Clydesdale Bank whereby the latter will, upon satisfaction of the conditions precedent, provide the company with £19.3 million of loan finance secured with a first charge against the Thorpe Hall property. The company has also engaged Hotbed PLC, a venture capital company, to raise £3.5 million of capital in the form of equity and loan stock

The directors believe that, once secured, the funds from Clydesdale and Hotbed will be sufficient to complete the development of the planned residential health spa and fund the company's ongoing working capital requirements

Directors

The directors of the company during the year were

P R Cronk
P M Tory
M J Wootton

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

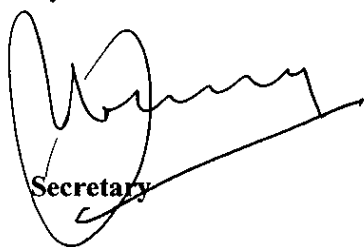
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board



Secretary

14 September 2007

To the shareholders of Tangram Leisure Limited

We have audited the financial statements of Tangram Leisure Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- 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

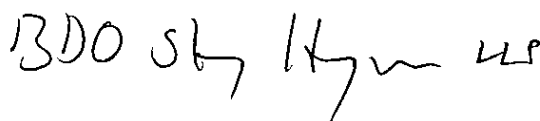
Emphasis of matter - Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern

We note that the company has satisfied all of the conditions precedent to the drawdown of the overdraft and working capital loan, save for the submission of the signed audited accounts with the lenders and their subsequent acceptance. We therefore draw your attention to the fact that, at the date of the audit report, there remained one unsatisfied condition, being the acceptance by the bank of the signed audited accounts

We do not consider the acceptance of this final condition so material that it casts significant uncertainty about the company's ability to continue as a going concern

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern



BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

14 September 2007

Tangram Leisure Limited**Profit and loss account for the year ended 31 December 2006**

	Note	2006 £	2005 £
Turnover	2	120,564	99,378
Cost of sales		38,647	35,763
		<hr/>	<hr/>
Gross profit		81,917	63,615
Administrative expenses		463,745	370,865
		<hr/>	<hr/>
Operating loss	3	(381,828)	(307,250)
Interest receivable	6	4,035	2,603
Interest payable and similar charges	7	(270,381)	(249,618)
		<hr/>	<hr/>
Loss on ordinary activities before and after taxation for the financial year		(648,174)	(554,265)
		<hr/>	<hr/>

All amounts relate to continuing activities

All recognised gains and losses in the current and prior year are included in the profit and loss account

There are no movements in shareholders' funds in the current and prior year apart from the loss for the year

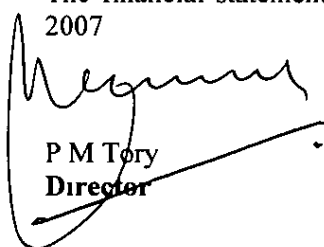
The notes on pages 7 to 15 form part of these financial statements

Tangram Leisure Limited

Balance sheet at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	9		5,941,832		5,938,299
Current assets					
Stocks	10	24,432		17,140	
Debtors	11	340,659		270,904	
Cash at bank and in hand		-		201,262	
		365,091		489,306	
Creditors: amounts falling due within one year	12	3,991,995		3,976,504	
Net current liabilities			(3,626,904)		(3,487,198)
Total assets less current liabilities			2,314,928		2,451,101
Capital and reserves					
Called up share capital	13		479,730		437,063
Share premium account	14		2,325,844		1,856,510
Revaluation reserve	14		2,522,222		2,522,222
Profit and loss account	14		(3,012,868)		(2,364,694)
Shareholders' funds	15		2,314,928		2,451,101

The financial statements were approved by the board of directors and authorised for issue on 14 September 2007


P M Tory
Director

The notes on pages 7 to 15 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings

The following principal accounting policies have been applied

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that it is a 'small' company under the Companies Act 1985

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales

Land and buildings

FRS 15 requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this freehold and long leasehold land and buildings are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

The profit or loss on disposal of revalued properties is calculated by reference to net book value and any realised revaluation surplus is transferred to the profit and loss account through reserves.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except for freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	- 2% straight line
Assets under construction	- Nil
Fixtures and fittings	- 15% straight line
Studio	- 2% straight line

It is the company's practice to maintain certain freehold buildings, used for display purposes, in a continual state of sound repair. In previous accounting periods, the directors considered that the lives of these assets and their residual values, based on prices prevailing at the time of their acquisition or subsequent revaluation, were such that their depreciation would not be material. However, they have reassessed the useful lives of these assets and decided that they should be depreciated over 10 years. Any subsequent enhancement expenditure is capitalised and depreciated accordingly.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

1 Accounting policies (*continued*)

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief.

Deferred tax balances are not discounted.

Going concern basis of preparation

The financial statements have been prepared on a going concern basis.

The company has now entered into an agreement with Clydesdale Bank whereby the latter will, upon satisfaction of the conditions precedent, provide the company with £19.3 million of loan finance secured with a first charge against the Thorpe Hall property. The company has also engaged Hotbed PLC, a venture capital company, to raise £3.5 million of capital in the form of equity and loan stock.

Consequently for the purposes of the preparation of the financial statements it has been assumed that these funds, once secured, from Clydesdale and Hotbed will be sufficient to enable the company to continue as a going concern, funding both the company's ongoing working capital requirements and the development of the planned residential health spa.

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

Tangram Leisure Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****3 Operating loss**

	2006 £	2005 £
This is arrived at after charging		
Depreciation of tangible fixed assets	17,155	11,155
Audit services	10,000	10,000
	<u> </u>	<u> </u>

4 Employees

Staff costs (including directors) consist of

	2006 £	2005 £
Wages and salaries	193,523	182,777
Social security costs	16,727	15,321
	<u> </u>	<u> </u>
	210,250	198,098
	<u> </u>	<u> </u>

The average number of employees (including directors) during the year was 18 (2005 - 13)

5 Directors' remuneration

	2006 £	2005 £
Directors' emoluments and fees	118,723	119,917
	<u> </u>	<u> </u>

Included in directors' emoluments and fees for services performed by Mr P R Cronk, specifically an amount of £33,000 (2005 - £36,000) relating to planning and design consultancy services accrued in the year and £Nil (2005 - £2,500) relating to rental paid for office space, all provided by Mr P R Cronk. There is also an amount of £6,000 (2005 - £6,000) relating to amounts paid and accrued to P M Tory for the rent of office space.

6 Interest receivable

	2006 £	2005 £
Bank deposits	4,035	2,603
	<u> </u>	<u> </u>

7 Interest payable and similar charges

	2006 £	2005 £
Bank loans and overdrafts	247,115	196,709
Other loans	14,320	9,653
Bank charges	8,946	43,256
	<u>270,381</u>	<u>249,618</u>

8 Taxation on loss on ordinary activities

The tax assessed for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £	2005 £
Loss on ordinary activities before tax	(648,174)	(554,265)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2005 - 19%)	(123,153)	(105,310)
Effect of:		
Expenses not deductible for tax purposes	16,093	1,092
Capital allowances for period in excess of depreciation	3,259	(1,150)
Unrelieved tax losses arising in the year	103,801	105,368
	<u>-</u>	<u>-</u>
Current tax charge for period	-	-

Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total unprovided amount is £756,667 (2005 - £756,667). At present, it is not envisaged that any tax will become payable in the foreseeable future.

The company has tax losses of approximately £2,758,000 (2005 - £2,212,000) available for offset against future taxable profits and unrelieved non trading deficits of approximately £138,000 (2005 - £142,000).

A deferred tax asset amounting to £547,222 (2005 - £442,187) has not been recognised on the basis that its future economic benefit is not certain. The deferred tax asset comprises of unutilised tax losses of £550,256 (2005 - £447,222) less other timing differences £3,034 (2005 - £5,035).

9 Tangible fixed assets

	Freehold land and buildings £	Assets under construction £	Fixtures and fittings £	Studio £	Total £
<i>Cost or valuation</i>					
At 1 January 2006	5,139,711	432,712	69,173	327,377	5,968,973
Additions	-	8,878	3,862	7,948	20,688
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	5,139,711	441,590	73,035	335,325	5,989,661
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2006	-	-	23,729	6,945	30,674
Provided for the year	-	-	10,528	6,627	17,155
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	-	-	34,257	13,572	47,829
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2006	5,139,711	441,590	38,778	321,753	5,941,832
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	5,139,711	432,712	45,444	320,432	5,938,299
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The gross value of freehold land and buildings are stated at

	2006 £	2005 £
Open market value - 22 July 2004	5,139,711	5,139,711
	<hr/>	<hr/>

The historical cost of Freehold land and buildings is

	2006 £	2005 £
Cost	2,617,489	2,617,489
	<hr/>	<hr/>

9 Tangible fixed assets (continued)

The freehold land and building and assets under construction were professionally revalued by Humberts Leisure, a firm of chartered surveyors, at open market value as at 20 July 2004. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Statement of Asset Valuation Practice and Guidance Notes. The surplus arising of £2,522,222 has been credited to the revaluation reserve. All other tangible fixed assets are stated at historical cost.

The directors are not aware of any subsequent material change in the valuations of freehold land and buildings, consequently the valuations have not been updated.

10 Stocks

	2006 £	2005 £
Goods held for resale	24,432	17,140

There is no material difference between the replacement cost of stocks and the amounts stated above.

11 Debtors

	2006 £	2005 £
Other debtors	331,192	263,390
Prepayments and accrued income	9,467	7,514
	<u>340,659</u>	<u>270,904</u>

All amounts shown under debtors fall due for payment within one year.

Included in other debtors is an amount of £327,000 (2005 - £245,062) in respect of capitalised issue and finance costs, in respect of fees incurred during the negotiation of new financing.

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Bank loan and overdraft (secured)	3,559,324	3,071,936
Other loan	228,147	213,827
Trade creditors	47,536	77,029
Taxation and social security	12,033	4,593
Other creditors	-	512,000
Accruals and deferred income	144,955	97,119
	<u>3,991,995</u>	<u>3,976,504</u>

The Bank Loan is secured against assets of the company by way of fixed and floating charges

The other loan relates to a 6.5% unsecured loan note amounting to £228,147 (2005 - £213,827) redeemable by the company at its par value, £157,692 plus accumulated interest at any time between 1 January 2006 and 31 December 2006. This is due to be renegotiated subsequent to the year end.

Other creditors £Nil (2005 - £512,000) relates to cash received from share subscribers applications before the year end. See share capital note for further disclosure.

13 Share capital

	2006 £	Authorised 2005 £	Allotted, called up and fully paid 2006 £	2005 £
Ordinary shares of 10p each	2,500,000	2,500,000	479,730	437,063

Movements in share capital subsequent to the year end

On 31 March 2006 the applications for shares were approved with an additional 426,665 ordinary shares, of 10p each, being allotted and issued for total consideration of £512,000.

14 Reserves

	Share premium account £	Revaluation reserve £	Profit and loss account £
At 1 January 2006	1,856,510	2,522,222	(2,364,694)
Premium on shares issued during the year	469,334	-	-
Loss for the year	-	-	(648,174)
	<hr/>	<hr/>	<hr/>
At 31 December 2006	2,325,844	2,522,222	(3,012,868)
	<hr/>	<hr/>	<hr/>

15 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Loss for the year	(648,174)	(554,265)
Issue of shares	42,667	-
Premium on shares issued during the year	469,334	-
	<hr/>	<hr/>
Net deductions from shareholders' funds	(136,173)	(554,265)
Opening shareholders' funds	2,451,101	3,005,366
	<hr/>	<hr/>
Closing shareholders' funds	2,314,928	2,451,101
	<hr/>	<hr/>

16 Contingent liabilities

As at 31 December 2006 the company had a contingent liability of £78,500 in respect of commission. The contingent liability would become payable in the event that the company fully draws down on the potential financing.

17 Related party disclosures

Controlling parties

There is no overall controlling party

Loans and transactions concerning directors and officers of the company

1) During the year, the company had the following arrangements in which Mr P R Cronk, a director of the company, has an interest

(a) Mannington International (UK) Limited pension scheme, which relates to Mr P R Cronk, has a holding of 61,531 (2005 - 61,531) ordinary shares of 10p each. This holding represents 2.10% (2005 - 2.46%) of the total shares issued.

(b) Mannington International (UK) Limited, which relates to Mr P R Cronk, invoiced the company £Nil (2005 - £5,716) in respect of flooring services and £738 (2005 - £4,787) in respect of general expenses.

(2) During the year the company accrued £33,000 (2005 - £36,000) for planning and design consulting services for Mr P R Cronk, which is disclosed in directors' remuneration. The amount due in respect of these consultancy services at 31 December 2006 was £103,250 (2005 - £69,000).

(3) During the year the company accrued £Nil (2005 - £2,500) in respect of accrued rent payable to Mr P R Cronk. The amount due in respect of this rental at 31 December 2006 was £Nil (2005 - £2,500).

(4) An amount of £6,000 (2005 - £6,000) was paid to P M Tory for the rent of office space. The amount due in respect of this rental at 31 December 2006 was £6,000 (2005 - £6,000).

The pages which follow do not
form part of the statutory
financial statements of the company

Tangram Leisure Limited

Detailed profit and loss account for the year ended 31 December 2006

	31 December 2006		31 December 2005	
	£	£	£	£
Turnover		120,564		99,378
Cost of sales		38,647		35,763
		<hr/>		<hr/>
Gross profit		81,917		63,615
Administrative expenses				
Directors' salaries	75,000		74,193	
Staff salaries	118,523		108,092	
National insurance	16,727		15,321	
Depreciation	17,155		11,155	
Legal and professional	89,489		7,294	
Insurance	18,367		15,912	
Printing postage and stationery	3,005		3,171	
Entertaining	317		2,839	
Light and heat	9,310		1,053	
Telephone	3,299		2,724	
Advertising	17,881		10,417	
Repairs and maintenance	18,098		11,306	
Computer maintenance and support	1,275		883	
Travel and subsistence	6,864		11,379	
General expenses	10,992		13,546	
Security costs	2,420		6,178	
Audit and accountancy	11,170		10,835	
Consultancy fees	33,000		36,000	
Oil Spill clear up costs	-		15,888	
Rent and rates	10,853		12,679	
		<hr/>		<hr/>
		463,745		370,865
		<hr/>		<hr/>
Operating loss		(381,828)		(307,250)
Interest receivable		4,035		2,603
Interest payable and similar charges		(270,381)		(249,618)
		<hr/>		<hr/>
Loss on ordinary activities		(648,174)		(554,265)
		<hr/>		<hr/>