Registered number 4374605

DSCLI Holdings Limited

Directors' report and financial statements

Year ended 31 December 2005

Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of DSCLI Holdings Limited	4
Profit and loss account	6
Balance sheet	7
Reconciliation of movements in shareholders' funds	8
Notes	9

Directors' report

M D Ball
N D Gillis
T P Moore

The directors present their report together with the audited financial statements in respect of the year ended 31 December 2005.

Principal Activity

The principal activity of the company is that of a holding company.

Business Review

The loss before taxation for the year was £15,000 *(2004: loss £87,000)* as shown in the Profit and Loss Account on page 6. The directors do not recommend the payment of a dividend for the year *(2004: £nil)*.

Directors

The directors shown at the head of this report are currently in office and served throughout the year under review with the exception of M E McGuigan who resigned as a director on 9 May 2006 and T P Moore who was appointed as a director on 10 May 2006. There were no other directors during the year.

Directors' Interests

The only interests of the directors in office at the end of the year in the share capital of the company were as follows:

Preference shares	At 01.01.05	At 31.12.05
M D Ball	37,500	37,500
N D Gillis	75,000	75,000
M E McGuigan	37,500	37,500

The interests of the directors in the shares and debentures of Esporta Group Limited, the ultimate holding company, are disclosed in the financial statements of that company.

Share Capital

Changes in the share capital during the year are detailed in note 11 of the financial statements.

Indemnity

The Articles of Association provide for the company indemnifying all directors subject to the provisions of the Companies Act 1985 (as amended).

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information 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 to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Auditor

Pursuant to the Elective Resolutions passed on 19 March 2004, the company will not hold an Annual General Meeting unless this is requested by any member. KPMG LLP, having confirmed their willingness to act, will continue in office as Auditor to the company.

By Order of the Board

R T V Tyson
Secretary

30 June 2006

Registered Office:
Trinity Court
Molly Millars Lane
Wokingham
Berkshire RG41 2PY

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of DSCLI Holdings Limited

We have audited the financial statements of DSCLI Holdings Limited for the year ended 31 December 2005, which comprise the Profit and Loss Account, Balance Sheet, Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 are 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.

Independent Auditors' Report *(continued)*

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 June 2006

Profit and loss account

for the year ended 31 December 2005

	Note	2005 £000	2004 £000
Administrative expenses		**(27)**	-
Operating profit		**(27)**	-
Exceptional items	*2*	**-**	(91)
Net interest receivable and similar income	*5*	**12**	4
Loss on ordinary activities before taxation	*3*	**(15)**	(87)
Tax on loss on ordinary activities	*6*	**(81)**	-
Retained loss for the financial year	*12*	**(96)**	(87)

The company has no recognised gains or losses other than for the loss for the year and the results relate wholly to continuing operations.

The movement on reserves is detailed in note 12 of these financial statements.

Balance sheet
at 31 December 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Investments	*7*		**20,000**		20,000
Current assets					
Debtors	*8*	**130,223**		130,304	
Cash at bank and in hand		**304**		292	
		130,527		130,596	
Creditors: *amounts falling due within one year*	*9*	**(150,685)**		(150,668)	
Net current liabilities			**(20,158)**		(20,072)
Total assets less current liabilities			**(158)**		(72)
Creditors: amounts falling due after more than one year	*10*		**(14)**		(4)
Net assets			**(172)**		(76)
Capital and reserves					
Called up share capital	*11*		**200**		200
Profit and loss account	*12*		**(372)**		(276)
Equity shareholders' funds			**(172)**		(76)

These financial statements were approved by the board of directors on 30 June 2006 and signed on its behalf by:

M D Ball
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005	2004
	£000	£000
Opening shareholders' funds	(76)	11
Loss for the financial year	(96)	(87)
Closing shareholders' funds	(172)	(76)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and within the requirements of the Companies Act 1985.

Exemption from preparation of consolidated accounts

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Cash flow statement

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Esporta Group Limited, and its cash flows are included within the consolidated cash flows of that company.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, Paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Investments

Investments held as fixed assets are stated at cost less amounts written off.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2 Exceptional items

The exceptional operating charges included in the profit and loss account are as follows:

	2005	2004
	£000	£000
Professional costs	-	91

Professional costs incurred in 2004 include expenses and tax liabilities arising from the issue of preference shares and preference share options during the year in connection with the group's Management Incentive Scheme.

3 Loss on ordinary activities before taxation

Auditors' remuneration was paid by a fellow subsidiary undertaking.

4 Directors' remuneration

The directors received no remuneration from the company during the year *(2004: £Nil)* but were remunerated by a fellow subsidiary undertaking, Esporta Health & Fitness Limited.

5 Net interest receivable and similar income

	2005	2004
	£000	£000
Bank interest	**12**	4

Notes *(continued)*

6 Taxation

Analysis of charge in year

	2005	2004
	£000	£000
Current tax		
Adjustment in respect of previous years	**81**	-
Tax on loss on ordinary activities	**81**	-

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2004: lower)* than the standard rate of corporation tax in the UK (30%; *2004: 30%*). The differences are explained below:

	2005	2004
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	**(15)**	(87)
Current tax at 30% *(2004: 30%)*	**(4)**	(26)
Effects of:		
Expenses not deductible for tax purposes	**-**	27
Group relief not paid	**4**	(1)
Adjustments to tax charge in respect of previous years	**81**	-
Total current tax charge	**81**	-

Future tax charges are expected to remain below the current rate of tax due to the existence of tax losses in the Esporta group.

7 Fixed asset investments

	Shares in subsidiary undertaking £000
Cost	
At beginning and end of year	20,000
Net book value	
At beginning and end of year	**20,000**

The company's subsidiary undertaking at 31 December 2005 is set out below.

Name	**Country of incorporation**	**Principal Activity**	**Class and Percentage of ordinary Share capital held**
Duke Street Leisure Capital Investments Limited	UK	Holding Company	100%

Notes *(continued)*

8 Debtors

	2005 £000	2004 £000
Due within one year:		
Corporation Tax	-	81
Amounts owed by group undertakings	130,223	130,223
	130,223	130,304

9 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Shares classified as liabilities (see *note 11*)	3	3
Share premium classified as liabilities (see *note 11*)	285	285
Amounts owed to group undertakings	150,397	150,380
	150,685	150,668

10 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Other creditors	14	4

11 Called up share capital

	2005 £000	2004 £000
Authorised		
500,000 Ordinary shares of £1 each	500	500
332,500 (*2004: 312,500*) Preference shares of £0.01 each	3	3
	503	503
Allotted, called up and fully paid		
200,101 Ordinary shares of £1 each	200	200
287,500 Preference shares of £0.01 each	3	3
	203	203
Shares classified as liabilities (see *note 9*)	3	3
Shares classified as shareholders' funds	200	200
	203	203

Notes *(continued)*

11 Called up share capital *(continued)*

312,500 Redeemable Preference shares of £0.01 each were created on 6 August 2004. On 17 August 2004, 287,500 Preference shares were allotted for cash at £1.00 per share.

On 23 August 2005, an additional 20,000 Redeemable Preference shares of £0.01 each were created.

The preference shares are valued at par and included within creditors due in less than one year (see note 9).

The Preference shares have no voting or dividend rights and there is no scheduled redemption. On a winding up or return of capital, the Preference shares have priority over other share classes to receive an Exit Amount determinable by reference to the Articles of Association. Share transfer restrictions and compulsory share transfer provisions also apply.

The Preference shares were created for the purposes of a long term Management Incentive Scheme for senior executives and managers of the Esporta Group. Under the scheme Preference shares are allotted for cash and conditional Preference share options awarded.

Under the Preference Share Option Plan options over a maximum of 45,000 shares can vest for a maximum of 30 participants at an Option Price of £1.00 per share. At 31 December 2005, 100,000 options were in issue, with rights of exercise expiring 10 years after the date of grant. No options vested during the year.

12 Reserves

	Profit and loss account £000
At 1 January 2005	(276)
Loss for the year	(96)
At 31 December 2005	**(372)**

13 Contingent liabilities

At 31 December 2005, the company was party to a mortgage debenture and composite guarantee with other group companies with regard to outstanding borrowings from a syndicate of lenders, the owner of the loan being Health and Fitness Holdings Limited, a fellow subsidiary undertaking. At 31 December 2005, total indebtedness under this term debt facility was £109.5 million *(2004: £115.5 million)*. There were no drawings under the revolving credit or capital expenditure facilities at the year end.

On 7 February 2006, Health and Fitness Holdings Limited completed a refinancing. New borrowing facilities were arranged by Bank of Scotland totalling £311.6 million. The company is party to a composite guarantee with regard to the new borrowing facilities.

14 Ultimate parent undertaking

The company's immediate parent undertaking is Health and Fitness Holdings Limited, registered in England and Wales.

The company's ultimate parent undertaking is Esporta Group Limited, registered in England and Wales.

The only consolidated accounts including the results of the company are those of Esporta Group Limited.

The consolidated accounts of Esporta Group Limited are available to the public and maybe obtained from Trinity Court, Molly Millars Lane, Wokingham, Berkshire, RG41 2PY.