

REGISTRAR'S COPY

COMPANY

NUMBER: 3966166

Tangram Leisure Limited

Amended Report and Financial Statements

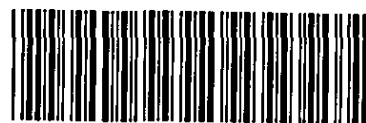
Year ended

31 December 2005

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BDO Stoy Hayward
Chartered Accountants

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Tangram Leisure Limited

Annual report and financial statements for the year ended 31 December 2005

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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

Report of the directors for the year ended 31 December 2005

The directors present their report together with the audited financial statements for the year ended 31 December 2005

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 (2004- £Nil)

Principal activities, review of business and future developments

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

On the 25th July 2005, the Company entered into an agreement with USA International Limited for the provision by the latter of a £20 million loan facility to the Company to fund, inter alia, repayment of the Bank of Scotland loan facility and the development of residential health spa at the Company's freehold property. The initial drawing under the terms of the facility agreement is subject to completion of satisfactory due diligence by the lender's advisers.

Directors

The directors of the company during the year and their beneficial interests in the ordinary share capital of the company were

Ordinary shares of 10p each

	31 December 2005	1 January 2005
P R Cronk	623,062	623,062
P M Tory	500,000	500,000
M J Wootton	375,000	375,000

P R Cronk's beneficial shareholding includes 61,531 shares held by Mannington International (UK) Limited Pension Scheme

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

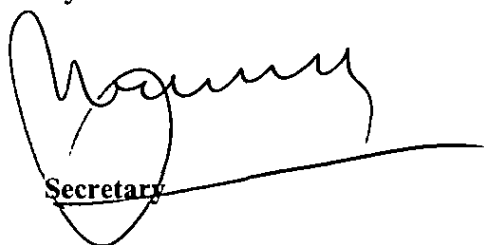
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

20/02/07

To the shareholders of Tangram Leisure Limited

We have audited the financial statements of Tangram Leisure Limited for the year ended 31 December 2005 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom 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.

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

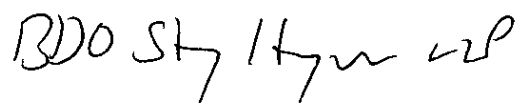
In our opinion the financial statements

- 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 2005 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

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. The company incurred a net loss of £554,265 during the year ended 31 December 2005 and, at that date, the company's current liabilities exceeded its current assets by £3,487,198. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt 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

23/02/07

Tangram Leisure Limited

Profit and loss account for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	99,378	94,324
Cost of sales		<u>35,763</u>	<u>29,047</u>
Gross profit		63,615	65,277
Administrative expenses		<u>370,865</u>	<u>363,904</u>
Operating loss	3	(307,250)	(298,627)
Interest receivable	6	2,603	734
Interest payable and similar charges	7	<u>(249,618)</u>	<u>(269,231)</u>
Loss on ordinary activities before and after taxation for the financial year		(554,265)	(567,124)
Accumulated loss brought forward	14	<u>(1,810,429)</u>	<u>(1,243,305)</u>
Accumulated loss carried forward	14	(2,364,694)	(1,810,429)

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

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

Tangram Leisure Limited

Balance sheet at 31 December 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	9		5,938,299		5,605,622
Current assets					
Stocks	10	17,140		15,577	
Debtors	11	270,904		2,361	
Cash at bank and in hand		201,262		15,362	
		<u>489,306</u>		<u>33,300</u>	
Creditors: amounts falling due within one year	12	<u>3,976,504</u>		<u>2,633,556</u>	
Net current liabilities			(3,487,198)		(2,600,256)
Total assets less current liabilities			2,451,101		3,005,366
Capital and reserves					
Called up share capital	13		437,063		437,063
Share premium account	14		1,856,510		1,856,510
Revaluation reserve	14		2,522,222		2,522,222
Profit and loss account	14		(2,364,694)		(1,810,429)
Shareholders' funds	15		2,451,101		3,005,366

The financial statements were approved by the board of directors and authorised for issue on 20/02/07


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

Going concern basis of preparation

The financial statements have been prepared on a going concern basis

The directors have been in discussions with potential sources for an additional £20 million of funding, as referred to in the directors report, and have entered into the final stages of these discussions. However there can be no certainty that this additional funding will be raised

Also in light of the fact that the company has continued to incur losses since the 31 December 2005 year end and the fact that the company's secured borrowings are repayable on demand, there can be no certainty that the company will be able to rely on the continued support of its current bankers and shareholders

However for the purposes of the preparation of the financial statements it has been assumed that the company's shareholders and bankers will continue to provide the necessary future working capital funding to allow the company to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements

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

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

1 Accounting policies (*continued*)

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 consider 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.

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, and

Deferred tax balances are not discounted.

Finance costs

Finance costs are charged to the profit and loss account 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.

2 Turnover

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

3 Operating loss

	2005 £	2004 £
This is arrived at after charging		
Depreciation of tangible fixed assets	11,155	7,098
Audit services	8,000	8,000
	<u>19,155</u>	<u>15,098</u>

4 Employees

Staff costs (including directors) consist of

	2005 £	2004 £
Wages and salaries	182,777	167,657
Social security costs	15,321	13,803
	<u>198,098</u>	<u>181,460</u>

The average number of employees (including directors) during the year was 13 (2004 - 13)

5 Directors' remuneration

	2005 £	2004 £
Directors' emoluments and fees	119,917	114,447
	<u>119,917</u>	<u>114,447</u>

Included in directors' emoluments and fees for services performed by Mr P R Cronk, specifically an amount of £36,000 (2004 - £33,000) relating to planning and design consultancy services accrued in the year and £2,500 (2004 - £Nil) relating to rental paid for office space, all provided by Mr P R Cronk. There is also an amount of £6,000 (2004 - £6,000) relating to amounts paid to P M Tory for the rent of office space.

6 Interest receivable

	2005 £	2004 £
Bank deposits	2,603	734
	<u> </u>	<u> </u>

7 Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdrafts	196,709	140,236
Other loans	9,653	11,748
Bank charges	43,256	117,247
	<u> </u>	<u> </u>
	249,618	269,231
	<u> </u>	<u> </u>

8 Taxation on loss on ordinary activities

The UK corporation tax charge for the year is £Nil (2004 - £Nil) due to the availability of trading losses

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

	2005 £	2004 £
Loss on ordinary activities before tax	(554,265)	(567,124)
	<u> </u>	<u> </u>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2004 - 19%)	(105,310)	(107,754)
Effect of		
Expenses not deductible for tax purposes	1,092	2,696
Capital allowances for period in excess of depreciation	(1,150)	(73)
Unrelieved tax losses arising in the year	105,368	105,131
	<u> </u>	<u> </u>
Current tax charge for period	-	-
	<u> </u>	<u> </u>

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 (2004 - £756,667). At present, it is not envisaged that any tax will become payable in the foreseeable future.

8 Taxation on loss on ordinary activities (continued)

The company has tax losses of approximately £2,212,000 (2004 - £1,663,000) available for offset against future taxable profits and unrelieved non trading deficits of approximately £142,000 (2004 - £145,000)

A deferred tax asset amounting to £442,187 (2004 - £339,072) 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 £447,222 (2004 - £342,957) plus other timing differences £5,035 (2004 - (£3,885))

9 Tangible fixed assets

	Freehold land and buildings £	Assets under construction £	Fixtures and fittings £	Studio £	Total £
<i>Cost or valuation</i>					
At 1 January 2005	5,139,711	384,452	42,362	58,616	5,625,141
Additions	-	48,260	26,811	268,761	343,832
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	5,139,711	432,712	69,173	327,377	5,968,973
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2005	-	-	15,492	4,027	19,519
Provided for the year	-	-	8,237	2,918	11,155
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	-	-	23,729	6,945	30,674
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2005	5,139,711	432,712	45,444	320,432	5,938,299
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	5,139,711	384,452	26,870	54,589	5,605,622
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The gross value of freehold land and buildings are stated at

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

9 Tangible fixed assets (continued)

The historical cost of Freehold land and buildings is

	2005 £	2004 £
Cost	2,617,489	2,617,489

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

	2005 £	2004 £
Goods held for resale	17,140	15,577

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

11 Debtors

	2005 £	2004 £
Other debtors	263,390	1,130
Prepayments and accrued income	7,514	1,231
	270,904	2,361

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

Included in other debtors is an amount of £245,062 (2004 - £Nil) 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

	2005 £	2004 £
Bank loan (secured)	3,071,936	2,340,000
Other loan	213,827	204,173
Trade creditors	77,029	29,097
Taxation and social security	4,593	4,217
Other creditors	512,000	-
Accruals and deferred income	97,119	56,069
	<u>3,976,504</u>	<u>2,633,556</u>

The other loan relates to a 6.5% unsecured loan note amounting to £213,827 redeemable by the company at its par value, £157,692 plus accumulated interest at any time between 1 January 2004 and 31 December 2004. This is due to be renegotiated subsequent to the year end.

Other creditors £512,000 (2004 - £Nil) relates to cash received from share subscribers applications before the year end. See share capital note for further disclosure.

13 Share capital

	2005 £	Authorised 2004 £	Allotted, called up and fully paid 2005 £	2004 £
<i>Equity share capital</i>				
Ordinary shares of 10p each	<u>2,500,000</u>	<u>2,500,000</u>	<u>437,063</u>	<u>437,063</u>

Movements in share capital subsequent to the year end

On 31 March 2006 the applications for shares, referred to in note 12, 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 2005	1,856,510	2,522,222	(1,810,429)
Loss for the year	-	-	(554,265)
	<u>1,856,510</u>	<u>2,522,222</u>	<u>(2,364,694)</u>
At 31 December 2005	<u>1,856,510</u>	<u>2,522,222</u>	<u>(2,364,694)</u>

15 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Loss for the year	(554,265)	(567,124)
Opening shareholders' funds	3,005,366	3,572,490
	<hr/>	<hr/>
Closing shareholders' funds	2,451,101	3,005,366
	<hr/>	<hr/>

16 Contingent liabilities

As at 31 December 2005 the company had a contingent liability of £78,500 in respect of commission on the potential new financing. The contingent liability would become payable in the event that the company fully draws down on the potential financing.

At 31 December 2005, included within total capitalised finance costs, of £245,062 (note 11), is an amount of £50,000 in respect of capitalised loan arrangement fees. In the event that the funding does not become available, the £50,000 represents the full non-refundable amount and will therefore be fully expensed to the profit and loss account.

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 (2004 - 61,531) ordinary shares of 10p each. This holding represents 1.41% (2004 - 1.41%) of the total shares issued.

(b) Mannington International (UK) Limited, which relates to Mr P R Cronk, invoiced the company £5,716 (2004 - £Nil) in respect of flooring services and £4,787 (2004 - £Nil) in respect of general expenses.

(2) During the year the company accrued £36,000 (2004 - £33,000) 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 2005 was £69,000 (2004 - £33,000).

(3) During the year the company accrued £2,500 (2004 - £Nil) in respect of accrued rent payable to Mr P R Cronk. The amount due in respect of this rental at 31 December 2005 was £2,500 (2004 - £Nil).

(4) An amount of £6,000 (2004 - £6,000) was paid to P M Tory for the rent of office space.