

REGISTRAR'S COPY

COMPANY

NUMBER: 3966166

Tangram Leisure Limited

Report and Financial Statements

Year Ended

31 December 2007



BDO Stoy Hayward
Chartered Accountants

Tangram Leisure Limited

Annual report and financial statements for the year ended 31 December 2007

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Directors

P R Cronk
P M Tory
M J Wootton
S J T Brown

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 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007

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 (2006 - £Nil)

Principal activities, trading review and future developments

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

Revenues from the company's existing treatment operation continued to show strong growth. As a result, turnover increased by 23% from 2006

The company has entered into an agreement with Clydesdale Bank whereby the latter has agreed to provide £21.5 million of loan finance, secured with a first charge against the Thorpe Hall property. The first phase of this funding, £4.735 million, has been made available to the company and part was used in September 2007 to repay the HBOS loan facility in full. The balance of £16.765 million will be drawable, upon satisfaction of certain conditions precedent, to fund the development of the residential health spa. In addition the company has entered into an agreement with Hotbed PLC, a venture capital company, for the injection into the company of £2.3 million of capital by its investor members in the form of equity and loan stock. Of this £1.57 million was provided in March 2008, with the balance being provided when the conditions precedent to the availability of the balance of the Clydesdale funding have been satisfied.

Principal risks and uncertainties

The key risks in relation to the company's planned activities relate to the construction costs of the residential spa, the cost of borrowing and the operation of the spa once it opens. The company will seek to manage the construction costs through fixed price contracts and will hedge all or part of its interest rate exposure.

Directors

The directors believe that the Clydesdale and Hotbed funding will be sufficient to complete the development of the planned residential health spa and to fund the company's ongoing working capital requirements.

The directors of the company during the year were

P R Cronk
P M Tory
M J Wootton
S J T Brown (appointed 12 March 2008)

Tangram Leisure Limited

Report of the directors for the year ended 31 December 2007 (*Continued*)

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 period. 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,
- 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

Date 13 May 2008

Tangram Leisure Limited

Report of the independent auditors

To the shareholders of Tangram Leisure Limited

We have audited the financial statements of Tangram Leisure Limited for the year ended 31 December 2007 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. We also report to you if, in our opinion, the directors' report is not consistent with those 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.

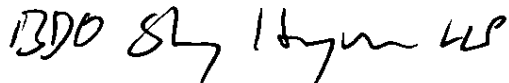
Tangram Leisure Limited

Report of the independent auditors (*Continued*)

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 2007 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 statement



BDO STOY HAYWARD LLP
*Chartered Accountants
and Registered Auditors*
Reading

Date *20/5/2008*

Tangram Leisure Limited

Profit and loss account for the year ended 31 December 2007

	Note	2007 £	2006 £
Turnover	2	147,706	120,564
Cost of sales		40,828	38,647
Gross profit		106,878	81,917
Administrative expenses		469,743	463,745
Operating loss	3	(362,865)	(381,828)
Interest receivable	6	96	4,035
Interest payable and similar charges	7	(359,915)	(270,381)
Loss on ordinary activities before and after taxation for the financial year		(722,684)	(648,174)

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 14 form part of these financial statements

Tangram Leisure Limited

Balance sheet at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Tangible assets	9		5,949,030		5,941,832
Current assets					
Stocks	10	28,562		24,432	
Debtors	11	666,691		340,659	
Cash at bank and in hand		926		-	
		696,179		365,091	
Creditors amounts falling due within one year	12	5,052,965		3,991,995	
Net current liabilities			(4,356,786)		(3,626,904)
Total assets less current liabilities			1,592,244		2,314,928
Capital and reserves					
Called up share capital	13		479,730		479,730
Share premium account	14		2,325,844		2,325,844
Revaluation reserve	14		2,522,222		2,522,222
Profit and loss account	14		(3,735,552)		(3,012,868)
Shareholders' funds	15		1,592,244		2,314,928

The financial statements were approved by the Board of Directors and authorised for issue on 13 May 2008

P M Tory

Director

The notes on pages 7 to 14 form part of these financial statements

Tangram Leisure Limited

Notes forming part of the financial statements for the year ended 31 December 2007

1 Accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluations 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 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

Tangram Leisure Limited

Notes forming part of the financial statements for the year ended 31 December 2007 (Continued)

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.

2 Turnover

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

3 Operating loss

	2007 £	2006 £
This has been arrived at after charging		
Depreciation of tangible fixed assets	19,026	17,155
Audit services	14,000	10,000

Tangram Leisure Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

4 Employees

	2007 £	2006 £
Staff costs (including directors) consist of		
Wages and salaries	235,559	193,523
Social security costs	20,493	16,727
	<u>256,052</u>	<u>210,250</u>

The average number of employees, (including directors), during the year was 18 (2006 - 18)

5 Directors' remuneration

	2007 £	2006 £
Directors' emoluments and fees	148,822	118,723

Included in directors' emoluments and fees for services performed by Mr P R Cronk, there is an amount of £40,667 (2006 - £33,000) relating to planning and design consultancy services invoiced for in the year. There is also an amount of £6,000 (2006 - £6,000) relating to amounts paid and accrued to P M Tory for the rent of office space.

6 Interest receivable

	2007 £	2006 £
Bank deposits	96	4,035

7 Interest payable and similar charges

	2007 £	2006 £
Bank loans and overdrafts	340,121	247,115
Other loans	15,261	14,320
Bank charges	4,533	8,946
	<u>359,915</u>	<u>270,381</u>

Tangram Leisure Limited

Notes forming part of the financial statements for the year ended 31 December 2007 (*Continued*)

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.

	2007 £	2006 £
Loss on ordinary activities before tax	(722,684)	(648,174)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 20% (2006 – 19%)	(144,537)	(123,153)
Effect of		
Expenses not deductible for tax purposes	175	16,093
Depreciation for the period in excess of capital allowances	3,805	3,259
Unrelieved tax losses arising in the year	140,557	103,801
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 (2006 - £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 £2,852,000 (2006 - £2,758,000) available for offset against future taxable profits and unrelieved non trading deficits of approximately £138,000 (2006 - £138,000).

A deferred tax asset amounting to £739,228 (2006 - £547,222) 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 £738,617 (2006 - £550,256) less other timing differences £611 (2006 - £3,034).

Tangram Leisure Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

9 Tangible fixed assets

	Freehold land and buildings £	Assets under construction £	Fixtures and fittings £	Studio £	Total £
<i>Cost or valuation</i>					
At 1 January 2007	5,139,711	441,590	73,035	335,325	5,989,661
Additions	-	10,333	15,891	-	26,224
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	5,139,711	451,923	88,926	335,325	6,015,885
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2007	-	-	34,257	13,572	47,829
Provided for the year	-	-	12,319	6,707	19,026
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	-	-	42,576	20,279	66,855
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2007	5,139,711	451,923	42,350	315,046	5,949,030
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	5,139,711	441,590	38,778	321,753	5,941,832
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The gross value of freehold land and buildings are stated at

	2007 £	2006 £
Open market value – 22 July 2004	5,139,711	5,139,711
	<hr/>	<hr/>

The historical cost of Freehold land and buildings is

	2007 £	2006 £
Cost	2,617,489	2,617,489
	<hr/>	<hr/>

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.

Tangram Leisure Limited

Notes forming part of the financial statements for the year ended 31 December 2007 (*Continued*)

10 Stocks

	2007 £	2006 £
Goods held for resale	28,562	24,432

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

11 Debtors

	2007 £	2006 £
Other debtors	654,306	331,192
Prepayments and accrued income	12,385	9,467
	<u>666,691</u>	<u>340,659</u>

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

Included in other debtors is an amount of £327,000 (2006 - £327,000) in respect of capitalised issue and finance costs, in relation to fees incurred during the negotiation of new financing

12 Creditors: amounts falling due within one year

	2007 £	2006 £
Bank loan and overdraft (secured)	4,586,745	3,559,324
Other loan	243,407	228,147
Trade creditors	37,320	47,536
Taxation and social security	13,492	12,033
Accruals and deferred income	172,000	144,955
	<u>5,052,965</u>	<u>3,991,995</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 £243,407 (2006 - £228,147) redeemable by the company at its par value, £157,692 plus accumulated interest at any time between 1 January 2007 and 31 December 2007. The loan has been repaid in full subsequent to year end. This is satisfied by the issuance of 100,000 10p ordinary shares at a total consideration of £120,000 and the remaining was settled in cash.

Tangram Leisure Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

13 Share capital

	2007 Number	Authorised 2006 Number	Allotted, called up and fully paid 2007 £	2006 £
Ordinary shares of 10p each	2,500,000	2,500,000	479,730	479,730

14 Reserves

	Share premium account £	Revaluation reserve £	Profit and loss account £
At 1 January 2007	2,325,844	2,522,222	(3,012,868)
Loss for the year	-	-	(722,684)
At 31 December 2007	2,325,844	2,522,222	(3,735,552)

15 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Loss for the year	(722,684)	(648,174)
Issue of shares	-	42,667
Premium on shares issued during the year	-	469,334
Net deductions from shareholders' funds	(722,684)	(136,173)
Opening shareholders' funds	2,314,928	2,451,101
Closing shareholders' funds	1,592,244	2,314,928

16 Contingent liabilities

At 31 December 2007 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.

Tangram Leisure Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

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 (2006 - 61,531) ordinary shares of 10p each. This holding represents 2.10% (2006 - 2.10%) of the total shares issued.

(b) PRC Enterprises Limited, which relates to Mr P R Cronk, invoiced the company for £5,357 (2006 - £4,787) in respect of general expenses.

2) During the year the company was invoiced for £40,667 (2006 - £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 2007 was £127,250 (2006 - £103,250).

3) An amount of £6,000 (2006 - £6,000) was paid to P M Tory for the rent of office space that he provides for the company's use. The amount due for this rental at 31 December 2007 was £Nil (2006 - £6,000).