

**BLUE HEATH DIRECT LIMITED**

**Report and Financial Statements**

**26 February 2005**



# **BLUE HEATH DIRECT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Statement of directors' responsibilities</b>	<b>4</b>
<b>Independent auditors' report</b>	<b>5</b>
<b>Profit and loss account</b>	<b>6</b>
<b>Statement of movement in reserves and reconciliation of movement in shareholders' deficit</b>	<b>7</b>
<b>Balance sheet</b>	<b>8</b>
<b>Notes to the financial statements</b>	<b>9</b>

# **BLUE HEATH DIRECT LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

D Gurr  
S Mindham

#### **SECRETARY**

S Mindham

#### **REGISTERED OFFICE**

132 Upper Street  
Islington  
London  
N1 1QP

#### **BANKERS**

Lloyds TSB PLC  
Business and Commercial Service Centre  
4th Floor  
Hays Lane House  
1 Hays Lane  
London  
SE1 2HA

#### **SOLICITORS**

Taylor Wessing  
Carmelite  
50 Victoria Embankment  
Blackfriars  
London  
EC4Y 0DX

#### **AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Cambridge

# BLUE HEATH DIRECT LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 26 February 2005.

### ACTIVITIES

The principal activities of the company are operating a radically new technology based distribution service for the independent grocery sector in the UK.

### REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company continued to make good progress in the financial year ended 26 February 2005. As planned the company continued to concentrate its efforts securing additional business in the multiple account sector. Significant accounts won in the period, led to an increase in turnover of 12%. Operational the business also performed well, with administration and distribution costs decreasing by 5%, despite the increased turnover. With the cost reductions, and gross margin percentage increasing by 17%, the operating loss of the business reduced by 22%.

Reflecting this progress, in July the directors established a new holding company, Blueheath Holdings PLC, which successfully floated on the Alternative Investment Market ("AIM") of the London Stock Exchange. As part of the process, all short term bridging loans, debentures, and bank financing in the company was either re-paid or converted into equity. £18.5m of new funds were raised in the process, which together with the conversion of debt has left the company and group with a substantially stronger balance sheet. The transaction is explained in more detail in note 13.

The Directors believe that the company is in a strong position to continue its rapid expansion and progress towards breakeven.

### DIVIDENDS

The Directors do not recommend the payment of a dividend on the ordinary shares (2004: £nil). During the year, all preference shares were converted into ordinary shares. In accordance with the conversion terms, all accrued dividends were also converted into ordinary share capital. The charge arising in the year was £213,448 (2004 - £654,685). This transaction is explained in more detail in note 13.

### DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the period and their interest in the shares of the company and loan notes are as follows:

Share capital	26 February 2005	1 March 2004 or date of appointment
D Gurr	-	4,164
C Philp (resigned 3 September 2004)	-	4,164
C Smith (resigned 3 September 2004)	-	983
I Fraser (resigned 3 September 2004)	-	333
M Summerhayes (resigned 3 September 2004)	-	-
D Morrison (resigned 3 September 2004)	-	-
S Mindham (appointed 31 August 2004)	-	-

# BLUE HEATH DIRECT LIMITED

## DIRECTORS' REPORT

### DIRECTORS AND THEIR INTERESTS (continued)

#### 20% secured convertible 2005 loan notes

		26 February 2005		1 March 2004 (or date of appointment)	
		Nominal value	Accrued interest	Nominal value	Accrued interest
D Gurr		-	-	10,000	981
C Philp	(resigned 3 September 2004)	-	-	-	-
C Smith	(resigned 3 September 2004)	-	-	10,000	1,047
I Fraser	(resigned 3 September 2004)	-	-	-	-
M Summerhayes	(resigned 3 September 2004)	-	-	-	-
D Morrison	(resigned 3 September 2004)	-	-	-	-
S Mindham	(appointed 31 August 2004)	-	-	-	-

Under the Group re-organisation, detailed further in note 13, the shares held by the Directors were transferred to Blueheath Holdings PLC, together with the converted loan notes.

### AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors and to authorise the directors to determine the auditor's remuneration will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



Secretary

Simon Mindham

30<sup>th</sup> November 2005

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom 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 as at the end of the financial year 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;
- state whether applicable accounting standards have been followed;
- 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLUE HEATH DIRECT LIMITED**

We have audited the financial statements of Blue Heath Direct Limited for the 52 weeks ended 26 February 2005 which comprise the profit and loss account, the statement of movement in reserves and reconciliation of movement in shareholders' deficit, the balance sheet and the related notes 1 to 17. 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 auditors' 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, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

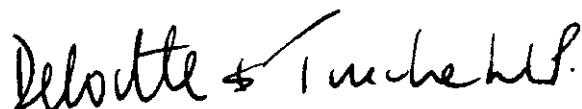
### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards 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 of the state of the company's affairs as at 26 February 2005 and of its loss for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP  
Chartered Accountants and  
Registered Auditors  
Cambridge

2. December 2005.

# BLUE HEATH DIRECT LIMITED

## PROFIT AND LOSS ACCOUNT 52 weeks ended 26 February 2005

	Note	52 weeks ended 26 February 2005 £	52 weeks ended 28 February 2004 £
<b>TURNOVER</b>	2	70,150,713	62,675,821
Cost of sales		(66,016,547)	(59,506,747)
Gross profit		4,134,166	3,169,074
Distribution costs		(5,027,374)	(5,324,667)
Administrative expenses		(4,272,779)	(4,494,109)
<b>OPERATING LOSS</b>	4	(5,165,987)	(6,649,702)
Interest receivable and similar income		252,554	325
Interest payable and similar charges	5	(1,601,140)	(826,463)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(6,514,573)	(7,475,840)
Tax on loss on ordinary activities	6	-	-
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(6,514,573)	(7,475,840)
Dividend on preference shares		(213,448)	(654,685)
<b>RETAINED LOSS FOR THE FINANCIAL PERIOD</b>		(6,728,021)	(8,130,525)

All activities derive from continuing operations.

There are no recognised gains or losses for the current financial period and preceding financial period other than as stated in the profit and loss account.



# BLUE HEATH DIRECT LIMITED

## STATEMENT OF MOVEMENT IN RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT 52 weeks ended 26 February 2005

	Called up share capital £	Share premium account £	Profit and loss account £	Other reserve £	Finance charge on non-equity shares reserve £	Total 52 weeks ended 26 February 2005 £
At 1 March 2004	26,620	9,888,469	(18,209,871)	41,500	1,275,084	(6,978,198)
Loss for the financial period	-	-	(6,514,573)	-	-	(6,514,573)
Finance charge on non equity shares	-	-	(213,448)	-	-	(213,448)
Conversion of preference shares	109,922	1,378,611	-	-	(1,275,084)	213,449
Conversion of warrants	-	41,500	-	(41,500)	-	-
Bonus issue on conversion of ordinary shares	45,594	(45,594)	-	-	-	-
Conversion of loan notes	75,548	7,479,252	-	-	-	7,554,800
At 26 February 2005	<u>257,684</u>	<u>18,742,238</u>	<u>(24,937,892)</u>	<u>-</u>	<u>-</u>	<u>(5,937,970)</u>

	Called up share capital £	Share premium account £	Profit and loss account £	Other reserve £	Finance charge on non-equity shares reserve £	Total 52 weeks ended 28 February 2004 £
At 2 March 2003	26,619	9,943,336	(10,134,213)	29,500	620,399	485,641
Loss for the financial period	-	-	(8,130,525)	-	-	(8,130,525)
Finance charge on non-equity shares	-	-	-	-	654,685	654,685
Issue of shares	1	-	-	-	-	1
Issue of warrants	-	-	-	12,000	-	12,000
Amortisation of debt issue costs	-	(54,867)	54,867	-	-	-
At 28 February 2004	<u>26,620</u>	<u>9,888,469</u>	<u>(18,209,871)</u>	<u>41,500</u>	<u>1,275,084</u>	<u>(6,978,198)</u>

# BLUE HEATH DIRECT LIMITED

## BALANCE SHEET 26 February 2005

	Note	26 February 2005 £	28 February 2004 £
<b>FIXED ASSETS</b>			
Tangible assets	7	229,080	220,394
<b>CURRENT ASSETS</b>			
Stocks	8	1,125,194	787,985
Debtors	9	5,968,003	3,970,745
Cash at bank and in hand		11,127,056	463
		18,220,253	4,759,193
<b>CREDITORS: amounts falling due within one year</b>	10	(6,869,759)	(5,232,678)
<b>NET CURRENT ASSETS (LIABILITIES)</b>		11,350,494	(473,485)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		11,579,574	(253,091)
<b>CREDITORS: amounts falling due after more than one year</b>			
Owed to holding Company	11	(17,517,544)	(6,725,107)
<b>NET LIABILITIES</b>		(5,937,970)	(6,978,198)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	257,684	26,620
Share premium account		18,742,238	9,888,469
Profit and loss account		(24,937,892)	(18,209,871)
Other reserve		-	41,500
Finance charge on non-equity shares reserve		-	1,275,084
<b>TOTAL SHAREHOLDERS' DEFICIT</b>		(5,937,970)	(6,978,198)
<b>Attributable to equity shareholders</b>		(5,937,970)	(18,078,134)
<b>Attributable to non-equity shareholders</b>	13	-	11,099,936

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

Director

Simon Mindham

30<sup>th</sup> November 2005

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 26 February 2005

### 1. ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below:

#### **Basis of financial statements**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

#### **Accounting convention**

The financial statements are prepared under the historical cost convention.

#### **Tangible fixed assets**

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Plant and machinery	20%-33% per annum
Computing equipment	33% per annum
Fixtures and fittings	20% per annum

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value.

#### **Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

#### **Leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

#### **Capital instruments**

Capital instruments are recovered at the fair value of the consideration received less issue costs in accordance with FRS4. The difference between the net proceeds of the issue and the total amounts of payment that the issuer may be required to make is recorded as a finance cost of the instrument and written off over the life of the instrument.

#### **Web site development costs**

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred.

#### **Cash flow statement**

In accordance with Financial Reporting Standard No 1 (revised), the company has taken advantage of the exemption for subsidiary undertakings, whose 90% or more voting rights are controlled within a group, from the requirement to prepare a cash flow statement, as the consolidated financial statements in which the company is included are publicly available.

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 26 February 2005

### 2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. The turnover and pre-tax loss, all of which arises in the United Kingdom, is attributable to the company's principal activity.

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 26 February 2005 £	52 weeks ended 28 February 2004 £
<b>Directors' remuneration</b>		
Fees	308,014	206,357
Amounts paid to third parties for the provision of directors' services	8,229	4,490
The amount in respect of the highest paid director is as follows:		
Emoluments	110,519	120,000

During the year the following directors' interest in options over shares was:

	1 March 2004	Granted in period	Bonus issue	Transferred	26 February 2005
Douglas Gurr	687	-	274,113	(274,800)	-
Chris Philp	687	-	274,113	(274,800)	-
Colin Smith	162	356	206,682	(207,200)	-
Ian Fraser	56	178	93,366	(93,600)	-
Simon Mindham	200	300	199,500	(200,000)	-

All options were granted on 15 July 2002. The share options were transferred to Blueheath Holdings plc as part of the reconstruction of the group. No share options were outstanding at the year end.

	52 weeks ended 26 February 2005 No	52 weeks ended 28 February 2004 No
<b>Average number of persons employed</b>		
Sales and distribution	30	30
Administration (including directors)	38	33
	68	63
	£	£
<b>Staff costs during the period (including directors)</b>		
Wages and salaries	1,762,483	2,024,952
Social security costs	224,707	210,859
	1,987,190	2,235,811

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 26 February 2005

### 4. OPERATING LOSS

	52 weeks ended 26 February 2005 £	52 weeks ended 28 February 2004 £
<b>Operating loss is after charging (crediting):</b>		
Depreciation		
Owned assets	299,155	286,711
Operating lease rentals		
Land and buildings	93,420	-
Other	103,102	204,699
(Profit) loss on sale of fixed assets	(3,726)	2,181
Auditors' remuneration		
Audit services	30,000	20,000
Other services	8,940	10,580
	<u>          </u>	<u>          </u>

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 26 February 2005 £	52 weeks ended 28 February 2004 £
Bank interest and charges	131,555	129,746
Other loan interest	1,359,842	629,850
Warrant licence charge	-	12,000
Amortisation of debt issue costs	109,743	54,867
	<u>1,601,140</u>	<u>826,463</u>

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES

#### i. Analysis of tax charge on ordinary activities

	52 weeks ended 26 February 2005 £	52 weeks ended 28 February 2004 £
United Kingdom corporation tax at 30% (2004 - 30%) based on the loss for the period	-	-
	<u>          </u>	<u>          </u>

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 26 February 2005

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

#### ii. Factors affecting current tax charge for the period

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK 30% (2004 - 30%). The differences are explained below:

	52 weeks ended 26 February 2005 %	52 weeks ended 28 February 2004 %
Standard tax rate for period as a percentage of losses	30	30
Effects of:		
Movement in short term timing differences	1	-
Capital allowances in excess of depreciation	(1)	(1)
Utilisation of tax losses	(28)	(29)
Group relief surrendered	(2)	-
	<u>-</u>	<u>-</u>
Current tax rate for period as a percentage of losses	<u>-</u>	<u>-</u>

### 7. TANGIBLE FIXED ASSETS

	Computing equipment £	Plant and machinery £	Fixtures and fittings £	Total £
Cost				
At 1 March 2004	716,717	63,766	39,214	819,697
Additions	67,491	242,358	-	309,849
Disposals	-	(16,666)	-	(16,666)
	<u>784,208</u>	<u>289,458</u>	<u>39,214</u>	<u>1,112,880</u>
At 26 February 2005				
Accumulated depreciation				
At 1 March 2004	545,712	31,207	22,384	599,303
Charge for the period	130,886	160,427	7,842	299,155
Disposals	-	(14,658)	-	(14,658)
	<u>676,598</u>	<u>176,976</u>	<u>30,226</u>	<u>883,800</u>
At 26 February 2005				
Net book value				
At 26 February 2005	<u>107,610</u>	<u>112,482</u>	<u>8,988</u>	<u>229,080</u>
At 28 February 2004	<u>171,005</u>	<u>32,559</u>	<u>16,830</u>	<u>220,394</u>

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 26 February 2005

### 8. STOCKS

	26 February 2005 £	28 February 2004 £
Goods held for resale	<u>1,125,194</u>	<u>787,985</u>

### 9. DEBTORS

	26 February 2005 £	28 February 2004 £
Trade debtors	4,876,991	3,291,892
Other debtors	993,647	622,264
Prepayments and accrued income	<u>97,365</u>	<u>56,589</u>
	<u>5,968,003</u>	<u>3,970,745</u>

### 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	26 February 2005 £	28 February 2004 £
Bank loans	216,970	2,058,028
Bank overdraft	-	217,863
Trade creditors	5,598,362	1,611,403
Tax and social security	-	112,327
Other creditors	65,035	55,757
Accruals and deferred income	<u>989,392</u>	<u>1,177,300</u>
	<u>6,869,759</u>	<u>5,232,678</u>

The bank loan in 2004 represented an invoice discounting facility which was secured by a debenture held by Lloyds TSB Bank. As part of the arrangement trade debt is assigned to Lloyds until funds are received. The loan is repayable on receipt, by the company, of the monies from the debtor.

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 26 February 2005

### 11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	26 February 2005 £	28 February 2004 £
<b>Convertible debt</b>		
20% secured convertible 2005 loan notes and accrued interest	-	6,834,850
Repayable between one and two years	-	(109,743)
Loan issue costs	-	
	<u>-</u>	<u>6,725,107</u>

The 20% secured convertible 2005 loan notes had a total nominal value of £6,219,117 and carried interest at a rate of 20% per annum. The nominal value has been received in full less £164,601 loan issue costs. The loan notes were secured by a fixed and floating charge over the company's assets, ranking behind Barclays Bank plc.

The loan notes were all converted on the 12 July 2004 as part of the group reconstruction, refer note 13

	26 February 2005 £	28 February 2004 £
Intercompany loan	17,517,544	-

The intercompany loan does not have any fix repayment terms and carries interest at Bank of England BASE rate minus 0.5%.

### 12. PROVISION FOR LIABILITIES AND CHARGES

#### Deferred taxation

The amounts provided in the financial statements and the amounts not provided are as follows:

	Provided		Not provided	
	26 February 2005 £	28 February 2004 £	26 February 2005 £	28 February 2004 £
Capital allowances in advance of depreciation	17,669	24,361	-	-
Short-term timing differences	-	-	(19,664)	(30,299)
Losses	(17,669)	(24,361)	(6,899,488)	(5,056,780)
	<u>-</u>	<u>-</u>	<u>(6,919,152)</u>	<u>(5,087,079)</u>

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses which may be available to carry forward. The amount of the asset not recognised is £6,919,152 (2004 - £5,087,079). Subject to Inland Revenue approval, the asset could be recovered if the company was able to generate suitable taxable profits in the future.



# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 26 February 2005

### 13. CALLED UP SHARE CAPITAL

	26 February 2005 £	28 February 2004 £
<b>Authorised</b>		
100,000,000 (2004 - 10,000,000) ordinary shares of 1 penny each	1,000,000	100,000
Nil (2004 - 20,000) 6% convertible redeemable preference A shares of £1 each	-	20,000
Nil (2004 - 20,000) 6% convertible redeemable preference B shares of £1 each	-	20,000
	<u>1,000,000</u>	<u>140,000</u>
<b>Called up, allotted and fully paid</b>		
25,768,400 (2004 - 11,427) ordinary shares of 1 penny each	257,684	114
Nil (2004 - 11,644) 6% convertible redeemable preference A shares of £1 each	-	11,644
Nil (2004 - 14,862) 6% convertible redeemable preference B shares of £1 each	-	14,862
	<u>257,684</u>	<u>26,620</u>

#### Non-equity shareholders' funds

The non-equity shareholders' funds are split between the two classes of shares as follows:

	26 February 2005 £	28 February 2004 £
6% convertible redeemable preference A shares	-	3,614,405
6% convertible redeemable preference B shares	-	7,485,531
	<u>-</u>	<u>11,099,936</u>

#### Warrants

	Number of warrants	Consideration £
At 1 March 2004	6,885	41,500
Converted into share premium	(6,885)	(41,500)
	<u>-</u>	<u>-</u>
At 26 February 2005	-	-

# BLUE HEATH DIRECT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 26 February 2005

### 13 CALLED UP SHARE CAPITAL (continued)

On 12 July 2004 the directors increased the authorised share capital to £1,000,000 following the passing of the appropriate shareholder resolution.

By a written resolution of the holders of the £6,614,117 20% secured convertible loan notes 2005 (the "Noteholders") issued by Blueheath Direct Limited (the "Notes") dated 12 July 2004, the Noteholders resolved to amend the terms of the Notes so that the Notes convert into ordinary shares of Blueheath Direct Limited. Following the conversion the company has issued 18,887 ordinary shares.

On 12 July 2004, holders of series A preference shares and series B preference shares gave their notice to the company of their wish to exercise their right to convert these instruments into ordinary shares and deferred shares. Following this conversion the company has issued 34,107 ordinary shares. On conversion, the series A 6% convertible redeemable preference shares and series B 6% convertible redeemable preference shares converted into ordinary shares and deferred shares. In accordance with the articles of association of the company the deferred shares were redeemed on 12 July 2004. On 12 July 2004, the shareholders passed a resolution re-designating each of the authorised but unissued series A and B shares as 100 ordinary shares of 1 pence each in the share capital of the company.

The directors agreed that following the completion of the conversion matters noted above, and the increase in authorised share capital, that on 12 July 2004 the company would perform a bonus issue of 399 new ordinary shares in respect of each ordinary share then in issue. The bonus issue is to be fully paid up as to nominal value from the share premium account.

Blueheath Holdings plc incorporated on 4 June 2004 with 1 ordinary share of £0.01. Subsequently it effected a group reconstruction in order to acquire, on a share for share basis, Blue Heath Direct Limited. As part of this re-organisation the warrants were converted into share premium.

#### Share options

The company had two share option schemes. At 26 February 2005 options for 1,439 shares (including directors' options) had been granted (2004 - 3,469) and were outstanding. A bonus issue of 1,958,292 share options were made. 1,963,200 share options were transferred to Blueheath Holdings plc as part of the reconstruction of the group. No share options were outstanding at year end.

### 14. CAPITAL COMMITMENTS

At 26 February 2005 the company had no capital commitments contracted for but not provided (2004 - £nil).

### 15. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	26	28	26	28
	February	February	February	February
	2005	2004	2005	2004
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	30,733	5,624
Within one to two years	-	-	7,094	43,832
Within two to five years	-	-	32,781	18,011
In more than five years	93,420	93,420	-	-
	<u>93,420</u>	<u>93,420</u>	<u>70,608</u>	<u>67,467</u>

# **BLUE HEATH DIRECT LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**52 weeks ended 26 February 2005**

### **16. RELATED PARTY TRANSACTIONS**

In accordance with Financial Reporting Standard No. 8, the company has taken advantage of the exemption for subsidiary undertakings, whose 90% or more voting rights are controlled within the group, from the requirement to disclose related party transactions, as the consolidated financial statements in which the company is included are publicly available.

### **17. ULTIMATE CONTROLLING PARTY**

On 4 June 2004, Blueheath Holdings plc was incorporated and on 12 July 2004 acquired 100 per cent of the issued share capital of Blue Heath Direct Limited by way of a share for share exchange. The directors consider that Blueheath Holdings plc, a company incorporated in Great Britain and registered in England and Wales, is the controlling party and ultimate parent company. Blueheath Holdings plc is the parent company of the largest and smallest group of which Blue Heath Direct Limited is a member.

A copy of the financial statements can be obtained at 132 Upper street, London, N1 1QP.