

COMPANY REGISTRATION NUMBER 04968342

**CANADA SQUARE HEALTH
& FITNESS LIMITED**

FINANCIAL STATEMENTS

31 DECEMBER 2004

HURST MORRISON THOMSON LLP

Chartered Accountants & Registered Auditors

5 Fairmile
Henley-on-Thames
Oxfordshire
RG9 2JR



CANADA SQUARE HEALTH & FITNESS LIMITED

FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

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CANADA SQUARE HEALTH & FITNESS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

Mr D Lee
Mr I C Mahoney

Company secretary

R M Mortimore

Registered office

16-19 Canada Square
Canary Wharf
London
E14 5ER

Auditors

Hurst Morrison Thomson LLP
Chartered Accountants
& Registered Auditors
5 Fairmile
Henley-on-Thames
Oxfordshire
RG9 2JR

Bankers

Barclays Bank plc
366 Strand
London
WC2R 0JQ

CANADA SQUARE HEALTH & FITNESS LIMITED

THE DIRECTORS' REPORT

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

The directors present their report and the financial statements of the company for the period from 18 November 2003 to 31 December 2004.

PRINCIPAL ACTIVITIES

The company was incorporated on 18 November 2003 as Broomco (3337) Limited. On 19 December 2003 the company changed its name to Canada Square Health & Fitness Limited and subsequently commenced trading on 23 December 2003.

The principal activity of the company in the period was a health, fitness and recreational club.

THE DIRECTORS AND THEIR INTERESTS IN THE SHARES OF THE COMPANY

The directors who served the company during the Period together with their beneficial interests in the shares of the company were as follows:

		At Class of share 31 December 2004	At 18 November 2003 or later date of appointment
Mr D Lee	A Ordinary shares	1	—
	B Ordinary shares	44	—
Mr I C Mahoney	B Ordinary shares	<u>110</u>	<u>—</u>

DLA Nominees Limited was appointed as a director on 18 November 2003.

DLA Secretarial Services Limited was appointed as a director on 18 November 2003.

Mr D Lee was appointed as a director on 24 December 2003.

Mr I C Mahoney was appointed as a director on 16 December 2003.

DLA Nominees Limited retired as a director on 16 December 2003.

DLA Secretarial Services Limited retired as a director on 16 December 2003.

DIRECTORS' RESPONSIBILITIES

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, as described on pages 8 to 9, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

CANADA SQUARE HEALTH & FITNESS LIMITED

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

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. The directors 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

Hurst Morrison Thomson LLP were appointed during the year to fill a casual vacancy that arose. A resolution to re-appoint Hurst Morrison Thomson LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

Registered office:
16-19 Canada Square
Canary Wharf
London
E14 5ER

Signed by order of the directors



MR D LEE
Director

Approved by the directors on 6th Sept 2005

CANADA SQUARE HEALTH & FITNESS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CANADA SQUARE HEALTH & FITNESS LIMITED



PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

HURST MORRISON THOMSON

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Oxfordshire RG9 2JR

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We have audited the financial statements of Canada Square Health & Fitness Limited for the period from 18 November 2003 to 31 December 2004 on pages 6 to 14 which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the historical cost convention and the accounting policies set out on pages 8 to 9.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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 law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 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 transactions with the company 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 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.

CANADA SQUARE HEALTH & FITNESS LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CANADA SQUARE HEALTH & FITNESS LIMITED *(continued)***

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.



HURST MORRISON THOMSON LLP
Chartered Accountants
& Registered Auditors

5 Fairmile
Henley-on-Thames
Oxfordshire
RG9 2JR

9th September, 2005

CANADA SQUARE HEALTH & FITNESS LIMITED

PROFIT AND LOSS ACCOUNT

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

	Note	Period from 18 Nov 03 to 31 Dec 04 £
TURNOVER		4,303,701
Cost of sales		2,063,048
GROSS PROFIT		2,240,653
Administrative expenses		3,550,654
OPERATING LOSS	2	(1,310,001)
Cost of restructuring the company		(129,797)
		(1,439,798)
Interest receivable		7,574
Interest payable and similar charges		(167,526)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,599,750)
Tax on loss on ordinary activities	3	—
LOSS FOR THE FINANCIAL PERIOD		(1,599,750)

The notes on pages 8 to 14 form part of these financial statements.

CANADA SQUARE HEALTH & FITNESS LIMITED

BALANCE SHEET

31 DECEMBER 2004

	Note	£	31 Dec 04 £
FIXED ASSETS			
Intangible assets	4		6
Tangible assets	5		3,623,152
			<u>3,623,158</u>
CURRENT ASSETS			
Stocks		72,259	
Debtors	6	243,503	
Cash at bank and in hand		183,419	
		<u>499,181</u>	
CREDITORS: Amounts falling due within one year	7	<u>1,644,981</u>	
NET CURRENT LIABILITIES			<u>(1,145,800)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,477,358</u>
CREDITORS: Amounts falling due after more than one year	8		<u>2,079,508</u>
			<u>397,850</u>
CAPITAL AND RESERVES			
Called-up share capital	11		1,860,323
Share premium account	12		137,277
Profit and loss account			<u>(1,599,750)</u>
SHAREHOLDERS' FUNDS (including non-equity interests)			<u>397,850</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

These financial statements were approved by the directors on the 6th Sept 2005 and are signed on their behalf by:

.....
MR D LEE

.....
MR I C MAHONEY

The notes on pages 8 to 14 form part of these financial statements.

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the period, exclusive of Value Added Tax.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property	- 10 years straight line
Plant & Machinery	- 10 years straight line
Fixtures & Fittings	- 10 years straight line
Equipment	- 3 years straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

1. ACCOUNTING POLICIES *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	Period from 18 Nov 03 to 31 Dec 04 £
Directors' emoluments	74,359
Depreciation of owned fixed assets	378,457
Auditors' fees	9,000
Net profit on foreign currency translation	<u>(360)</u>

3. TAXATION ON ORDINARY ACTIVITIES

At 31 December 2004 the company had tax losses of £2,353,708 carried forward. The company has not provided for any deferred tax on this asset.

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

4. INTANGIBLE FIXED ASSETS

	Goodwill £
COST	
Additions	6
At 31 December 2004	<u>6</u>
AMORTISATION	<u>—</u>
NET BOOK VALUE	
At 31 December 2004	<u>6</u>

5. TANGIBLE FIXED ASSETS

	Leasehold Property £	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
COST					
Additions	542,724	7,517	3,334,509	116,859	4,001,609
At 31 December 2004	<u>542,724</u>	<u>7,517</u>	<u>3,334,509</u>	<u>116,859</u>	<u>4,001,609</u>
DEPRECIATION					
Charge for the period	33,817	274	331,288	13,078	378,457
At 31 December 2004	<u>33,817</u>	<u>274</u>	<u>331,288</u>	<u>13,078</u>	<u>378,457</u>
NET BOOK VALUE					
At 31 December 2004	<u>508,907</u>	<u>7,243</u>	<u>3,003,221</u>	<u>103,781</u>	<u>3,623,152</u>

6. DEBTORS

	31 Dec 04 £
Trade debtors	61,124
Other debtors	182,379
	<u>243,503</u>

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

7. CREDITORS: Amounts falling due within one year

	£	31 Dec 04 £
Trade creditors		495,860
Other creditors including taxation and social security:		
PAYE and social security	37,002	
VAT	108,161	
Other creditors	26,119	
Accruals and deferred income	977,839	
		<u>1,149,121</u>
		<u>1,644,981</u>

8. CREDITORS: Amounts falling due after more than one year

	31 Dec 04 £
Bank loans and overdrafts	1,000,000
Debenture loans	1,079,508
	<u>2,079,508</u>

The bank loan of £1,000,000 is secured by a first legal charge over the leasehold deeds of Reebok Sports Club, 2nd/3rd Floor, Building DS-8, Canada Place, Canary Wharf, London E14. The debenture loan is also secured on the company's assets.

9. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004 the company had aggregate annual commitments under non-cancellable operating leases as set out below.

	31 Dec 04 £
Operating leases which expire:	
After more than 5 years	<u>559,206</u>

10. RELATED PARTY TRANSACTIONS

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard for Smaller Entities.

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

11. SHARE CAPITAL

Authorised share capital:

	31 Dec 04
	£
500 A Ordinary shares of £1 each	500
198 B Ordinary shares of £1 each	198
1,957,500 Preference shares of £0.95 each	1,859,625
	<u>1,860,323</u>

Allotted, called up and fully paid:

	No	£
A Ordinary shares of £1 each	500	500
B Ordinary shares of £1 each	198	198
Preference shares of £0.95 each	1,957,500	1,859,625
	<u>1,958,198</u>	<u>1,860,323</u>

On 23 December 2003 the nominal capital of the company was increased by £1,859,625 beyond the registered capital of £1,000 to £1,860,625 by the creation of 1,957,500 Preference Shares of 95p each. The ordinary share capital of £1,000 was divided into 765 'A' Ordinary Shares of £1 and 235 'B' Ordinary Shares of £1.

On 24 December 2003 the following shares were issued:

499 'A' Ordinary Shares of £1 each for cash at £1 each.

198 'B' Ordinary Shares of £1 each for cash at £200 each.

1,957,500 Preference Shares of 95p each for cash of £1 each.

Voting rights

So long as the holders of A ordinary shares would by virtue of their holdings of A ordinary share on a poll be entitled to exercise over 49% of the total number of votes capable of being exercised in respect of all the issued Equity shares, then the number of votes capable of being cast on a poll in respect of the A ordinary shares shall be reduced to that number (rounding down any fraction) which is equal to 49% of the total number of votes capable of being exercised in respect of all the issued equity shares.

Preference shareholders will have the right to receive notice of, and to attend and speak at all general meetings of the company but preference shareholders shall not be entitled by virtue of their holdings of preference shares to vote by way of show of hands or on a poll at such meeting.

Rights to dividend

Preference Shares are entitled to a cumulative dividend of an aggregate sum equal to 6.9 per cent of the amount credited as paid up on the Preference Shares

'A' Ordinary Shares are entitled to a cumulative dividend of such sum as shall equal 10 per cent of the Adjusted Profits in respect of the accounting period ending 31 December 2006 and thereafter. The profits of the company which are available for lawful distribution in respect of each accounting period will be applied in the following order and priority:

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

First, in paying to the holders of the preference shares as a class a cumulative cash dividend (Preference dividend) of such sum as shall equal 6.9% of the amount credited as paid up on the Preference shares and second, in paying to the holders of the A Ordinary shares as a class a cumulative cash dividend (Participating dividend) of such sum as shall equal 10% of the adjusted profits in respect of the accounting period ending 31 December 2006 and thereafter such sum as shall equal the following percentages of the adjusted profits:

In respect of the accounting period ending 31 December 2007, 15% In respect of the accounting period ending 31 December 2008, 20% In respect of all subsequent accounting periods; 25%

The maximum participating dividend in any accounting period shall be limited to 50% of the company's profit for the relevant accounting period available for distribution to members (available profits) provided always that such excess of participating dividend as would have been payable to the holders of the A Ordinary shares had the participating dividend not been limited to 50% of the available profits shall be paid to the holders of the A Ordinary shares in the next accounting period(s) in which the participating dividend is less than 50% of the available profits (and provided always that the enlarged participating dividend in such subsequent accounting period(s) does not exceed 50% of the available profits for that accounting period) and all such excess(es) shall be carried forward as aforesaid until paid in full;

The following will apply in respect of the preference dividend and the participating dividend:

The dividends will be paid in cash;

The dividends will accrue on a daily basis;

The preference dividend will be fixed and will be paid by quarterly instalments on 31 March, 30 June, 30 September and 31 December in each year in respect of the period ending on those dates except that the first of each such payments will be made on the earlier of (i) the date of redemption to the extent that the class of share on which the dividend is payable has been redeemed, and (ii) 31 December 2006;

The dividends will all be cumulative.

Rights on winding up

On a return of capital of the company on a liquidation or otherwise (other than a redemption of shares or the purchase by the company of its own shares), the surplus assets and retained profits of the company after payment of all liabilities (including any arrears and accruals of unpaid dividend payable to the holders of A ordinary shares and any declared but unpaid dividends on the A ordinary shares and the B ordinary shares) and available for distribution among the members will be applied in the following order and priority:

Priority	Class of Share	Amount to be paid:
1	Preference shares	Amounts credited as paid up on all issued preference shares
2	A ordinary shares	Amounts credited as paid up on all issued A ordinary shares
3	B ordinary shares	Amounts credited as paid up on all issued B ordinary shares
4	A ordinary shares and B ordinary shares	Any balance of such surplus assets and retained profits (as if one class)

CANADA SQUARE HEALTH & FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 18 NOVEMBER 2003 TO 31 DECEMBER 2004

Any return on some but not all of any shares of a particular class will be made amongst their holders pro rata as nearly as possible to their respective holdings of shares of that class.

The company will redeem for cash at par the following numbers of preference shares:

Redemption date	Number of shares to be redeemed
31 March 2007	244,687
30 June 2007	244,688
30 September 2007	244,687
31 December 2007	244,688
31 March 2008	244,687
30 June 2008	244,688
30 September 2008	244,687
31 December 2008	244,688

12. SHARE PREMIUM ACCOUNT

	Period from 18 Nov 03 to 31 Dec 04 £
Premium on shares issued in the period	137,277
Balance carried forward	<u>137,277</u>