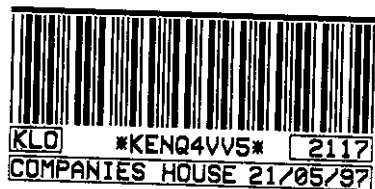


Company No: 3094301

TELSTAR FITNESS LIMITED
FINANCIAL STATEMENTS FOR THE PERIOD ENDED
30TH SEPTEMBER 1996



REPORT OF THE DIRECTORS OF

TELSTAR FITNESS LIMITED

The directors present their annual report together with the audited financial statements of the company for the period ended 30th September 1996.

INCORPORATION AND COMMENCEMENT OF TRADING

The company was incorporated on 23rd August 1995 and began trading in September 1995.

PRINCIPAL ACTIVITY

The company's principal activity is the sale of pre-recorded music cassettes and video tapes to fitness instructors.

BUSINESS REVIEW

The company traded at a loss during the period although the Directors are pleased with the profile established.

RESULTS AND DIVIDENDS

The results for the period are set out in detail on page 5 herein. The Directors do not recommend that any dividends be paid on the ordinary shares for the year. The loss after taxation of £254,201 has been transferred to reserves.

FIXED ASSETS

Details of fixed assets acquired during the period are given in note 10 to the financial statements.

DIRECTORS

The Directors who served during the period and the beneficial interests of those serving at the end of the period in the share capital of the ultimate parent company were as follows:

| | 1996 <u>£1 ordinary shares</u> <u>'E'</u> |
|--|---|
| D.A. Venus (appointed 23.08.95 resigned 23.08.95) | - |
| B.F. Watts (appointed 23.08.95) | 1 |
| J.H. McKimmie (appointed 23.08.95) | - |
| B. Aldham (appointed 23.08.95 resigned 31.10.96) | - |

None of the Directors had any beneficial interest in the company's shares.

REPORT OF THE DIRECTORS OF

TELSTAR FITNESS LIMITED (contd)

STATEMENT OF 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 its results for the year. In preparing the financial statements, the directors are required to:

- i) Select suitable accounting policies and apply them consistently.
- ii) Make judgements and estimates that are reasonable and prudent.
- iii) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- iv) 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

A resolution to re-appoint the auditors, Ian Murray & Co. Chartered Accountants, will be proposed at the Annual General Meeting.

By Order of the Board


C.J.R. Ogle - Secretary

24th April 1997

REPORT OF THE AUDITORS TO THE MEMBERS OF

TELSTAR FITNESS LIMITED

We have audited the financial statements set out on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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, 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.


Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements, concerning the uncertainty over the company's operational future. If the future is not favourable, it would be necessary to restate the company's assets at their realisable value; the likely effect of this on the company's net liability position is not readily quantifiable. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30th September 1996 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

21 Napier Place
London W14 8LG


IAN MURRAY & CO
Chartered Accountants
and Registered Auditor

24th April 1997

TELSTAR FITNESS LIMITED

BALANCE SHEET AS AT 30TH SEPTEMBER 1996

| | <u>Notes</u> | £ | £ |
|--|--------------|---------------|------------------|
| <u>FIXED ASSETS</u> | | | |
| Tangible assets | 1(d), 10 | | 12,114 |
| <u>CURRENT ASSETS</u> | | | |
| Stocks | 1(c), 8 | 2,546 | |
| Debtors | 9 | <u>42,914</u> | |
| | | 45,460 | |
| <u>CREDITORS:</u> amounts falling due within one year | 11 | (311,675) | |
| <u>NET CURRENT LIABILITIES</u> | | | (266,215) |
| <u>NET LIABILITIES</u> | | | <u>(254,101)</u> |
| <u>CAPITAL AND RESERVES</u> | | | |
| Called up share capital | 2 | | 100 |
| Profit and loss account | | | <u>(254,201)</u> |
| <u>SHAREHOLDERS FUNDS</u> | 14 | | <u>(254,101)</u> |

Approved by the Board
on 24th April 1997 and signed on
behalf of the Board

.....
B.F. Watts Director

TELSTAR FITNESS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED

30TH SEPTEMBER 1996

| | <u>Notes</u> | <u>£</u> |
|--|--------------|-----------|
| <u>TURNOVER</u> from continuing operations | 1(b), 3 | 84,998 |
| Cost of sales | | (137,987) |
| <u>GROSS LOSS</u> | | (52,989) |
| Administration expenses | | (193,280) |
| <u>OPERATING LOSS</u> | | (246,269) |
| Interest payable | 6 | (7,932) |
| <u>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</u> | | (254,201) |
| Taxation | 7 | - |
| <u>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</u> | | (254,201) |
| <u>RETAINED LOSS BROUGHT FORWARD</u> | | - |
| <u>RETAINED LOSS CARRIED FORWARD</u> | | (254,201) |

There were no recognised gains and losses other than those recognised in the Profit and Loss account.

TELSTAR FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED

30TH SEPTEMBER 1996

1. STATEMENT OF ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards and using the historical cost convention. The accounts have been prepared on the going concern basis on the assumption that sufficient finance will continue to be available from the holding company. The Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements incorporate the results of the principal activity which is described in the Directors Report and which is continuing.

(b) Turnover

Turnover comprises the value of goods and services supplied (excluding Value Added Tax) during the period in the normal course of business.

(c) Stocks

Stocks of music cassettes and tapes are valued at the lower of cost or net realisable value.

(d) Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write down the assets to their estimated residual value over their anticipated useful lives as follows:

| | | |
|------------|---|---|
| Motor cars | - | 25% - 33% (reducing balance) depending on anticipated usage |
| Equipment | - | 15% - 33% (reducing balance) depending on class of asset |

(e) Royalty advances and production costs

Royalty advances and production costs are written off in their entirety in the year in which they fall due for payment.

(f) Deferred taxation

Provision for deferred taxation is made at current rates of Corporation Tax where it is probable that a future liability will arise.

TELSTAR FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED

30TH SEPTEMBER 1996

2. SHARE CAPITAL

| | |
|----------------------------------|---------------|
| | <u>1996</u> |
| Authorised: | |
| 1000 ordinary shares of £1 each | <u>£1,000</u> |
| Allotted, issued and fully paid: | |
| 100 ordinary shares of £1 each | <u>£ 100</u> |

During the period, the company issued 100 £1 ordinary shares at par.

3. TURNOVER

The turnover and result before taxation is solely attributable to the principal activity of supplying pre-recorded tapes to the fitness industry.

4. OPERATING LOSS

| | |
|--|--------------|
| The operating loss is stated after charging: | £ |
| Amounts written off tangible fixed assets | 4,420 |
| Staff costs | 85,191 |
| Auditors' remuneration | <u>1,400</u> |

5. STAFF COSTS

| | |
|-------------------------|---------------|
| | £ |
| Directors' remuneration | 43,333 |
| Wages and salaries | 34,381 |
| Social security costs | <u>7,477</u> |
| | <u>85,191</u> |

The highest paid director received £43,333. No other directors received any remuneration from the company.

An analysis of the average weekly number of people employed, including Directors, is as follows:

| | |
|--------------------------|----------|
| Management | 3 |
| Administration and sales | <u>2</u> |
| | <u>5</u> |

6. INTEREST PAYABLE

| | |
|------------------------------|--------------|
| | <u>1996</u> |
| | £ |
| On loan from holding company | <u>7,932</u> |

TELSTAR FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED

30TH SEPTEMBER 1996

7. TAXATION

No charge to UK Corporation Tax arises as the company has not traded profitably during the period.

8. STOCKS

| | <u>1996</u> £ |
|---------------------------|------------------|
| Finished goods for resale | <u>2,546</u> |

9. DEBTORS

| | <u>1996</u> £ |
|-----------------------------------|------------------|
| Trade debtors | 17,097 |
| Other debtors | 9,092 |
| Amount owing to fellow subsidiary | <u>16,725</u> |
| | <u>42,914</u> |

10. TANGIBLE FIXED ASSETS

| | <u>Equipment</u> £ | <u>Motor Vehicles</u> £ | <u>Total</u> £ |
|------------------------|-----------------------|----------------------------|-------------------|
| <u>Cost</u> | | | |
| Acquired in the year | <u>6,162</u> | <u>10,372</u> | <u>16,534</u> |
| As at 30.09.96 | <u>6,162</u> | <u>10,372</u> | <u>16,534</u> |
| <u>Depreciation</u> | | | |
| Provision for the year | <u>1,827</u> | <u>2,593</u> | <u>4,420</u> |
| As at 30.09.96 | <u>1,827</u> | <u>2,593</u> | <u>4,420</u> |
| <u>NET BOOK VALUE</u> | | | |
| As at 30.09.96 | <u>4,335</u> | <u>7,779</u> | <u>12,114</u> |

11. CREDITORS: Amounts falling due within one year

| | <u>1996</u> £ |
|--------------------------------|------------------|
| Bank overdraft | 4,821 |
| Trade creditors | 9,393 |
| Amount owed to group companies | 264,035 |
| Accruals | <u>33,426</u> |
| | <u>311,675</u> |

TELSTAR FITNESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED

30TH SEPTEMBER 1996

12. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Telstar Holdings Limited, a company incorporated in England and Wales.

13. CASH FLOW STATEMENT

The company is exempt from the requirement to publish a cash flow statement as the parent company has published consolidated accounts which include a consolidated cash flow statement.

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

| | |
|---|------------------|
| | £ |
| <u>Profit and loss account</u> | |
| Loss for the period | (254,201) |
| <u>Proceeds of shares issued</u> | <u>100</u> |
| <u>Shareholders funds at 30th September</u> | <u>(254,101)</u> |