Health Club Holdings Limited

Directors' report and financial statements

Registered number 04663219

31 December 2011

Contents

Directors' report

The Directors present their annual report on the affairs of the group, together with the financial statements and independent auditors' report, for the year ended 31 December 2011

Principal activity

The principal activity of the Company is as a holding company for the group

In previous years, the financial statements have been prepared on a going concern basis However, following the sale of the group's principal asset, its investment in Virgin Active Group Ltd ("VAGL"), as described under "review of the business" below, the directors have taken the decision to cease trading As the directors intend to liquidate the company following the settlement of the remaining net assets, they have not prepared the financial statements on a going concern basis (see below under "Going Concern", and note 1 to the financial statements) No adjustments were necessary to the amounts at which the remaining net assets are included in the financial statements

The subsidiaries and associated undertakings principally affecting the loss and net liabilities of the group in the year are listed in note 9 to the financial statements

Results and dividends

The consolidated profit and loss account is set out on page 6 and shows the result for the year The Directors do not recommend payment of a dividend *(2010 nil)*

Review of the business and future development

The group does not trade, and its assets now consist mainly of cash The group seeks to manage its cash to maximise interest received taking account of liquidity needs of the group

Since 2006 the key asset of the group has been its approximately 12% interest in loan notes and ordinary shares of VAGL, the international chain of health clubs controlled by the Virgin Group In July 2011, through its subsidiaries Health Club Group plc ("HCG") and HCH&F Holdings Ltd ("HCH&FH"), the group subscribed in cash for £3 4 million new 18% VAGL Loan Notes

In August 2011 it was announced that CVC Capital Partners, a leading international private equity house, had acquired a controlling interest in VAGL, and in consequence on 20th October 2011 the new 18% and original 8% VAGL loan notes were redeemed and the group received £40 0 million cash (including accrued interest) On the same date the group realized its entire investment in VAGL ordinary shares for £17 8 million On receipt of these monies the board of HCH&FH declared an interim dividend on 28th October 2011 of 3 92 pence per share in respect of the 2011 financial year The dividend amounted to £19 5 million and was paid on 18th November 2011 Also on 18th November 2011 HCG made a second partial redemption of its Deep Discounted Bonds issued in 2003, by paying bondholders a total of £57 4 million, of which £29 8 million was in respect of the Subscription Price and £27 6 million the Income Element (rolled-up interest)

At 31st December 2011 the group had cash balances of £5 1 million which are retained to pay outstanding creditors, professional fees and other ongoing administration expenses It is intended, in due course to seek a members' voluntary liquidation of the various companies in the group This may result in a nominal final payment to respective company shareholders of Deep Discounted Bonds by a liquidator Liquidations are a lengthy process and the timing (and amount) of any final payment cannot be forecast

Directors' report (continued)

Going concern

At 31st December 2011 the group had net liabilities of £171 7 million *(2010 £165 3m)*, of which £176 5 million *(2010 £217 1m)* relates to deep discounted bonds which are not due for settlement until 2013 The group is in discussion with its two major shareholders, Bridgepoint Capital and Permira, who together own over 93% of the Deep Discounted Bonds issued by HCG, about an extension of the Deep Discounted Bonds maturity date beyond their existing Final Maturity Date of 21st May 2013, and the conversion of outstanding bonds to equity

As explained in under "Principal activity" above and in note 1 to the financial statements, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis

Directors

The Directors of the Company, who served throughout the year, were as follows

P A C Fox

P A Scholes

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

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

Patrick Fox
Director

The Quadrant
118 London Road
Kingston
Surrey
KT2 6QJ
26 March 2012

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business As explained in note 1 to the financial statements, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG

Independent auditor's report to the members of Health Club Holdings Limited

We have audited the financial statements of Health Club Holdings Limited for the year ended 31 December 2011 set out on pages 6 to 21 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements
- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reasons set out in that note

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

R M Seale.

RM Seale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

26 March 2012

Consolidated profit and loss account

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Turnover	1,2	-	-
Gross profit		-	-
Administrative income/(expenses)		(158)	860
Net operating profit/(loss)	2,3	(158)	860
Profit on disposal of investments	4	10,234	-
Interest receivable and similar income	6	2,449	3,530
Interest payable and similar charges	7	(16,778)	(16,988)
Loss on ordinary activities before taxation		(4,253)	(12,598)
Tax credit / (charge) on loss on ordinary activities	8	(897)	298
Loss on ordinary activities after taxation		(5,150)	(12,300)
Equity minority interest	17	(666)	(174)
Loss for the financial period		(5,816)	(12,474)

There is no difference between the result as disclosed in the Consolidated Profit and Loss Account and the result on an unmodified historical cost basis

All activities relate to continuing operations

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2011

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Retained loss in the year	**(5,816)**	(12,474)
Total recognised gains and losses relating to the year	**(5,816)**	(12,474)

Consolidated balance sheet
at 31 December 2011

	Notes	2011		2010	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	9		-		41,801
Current assets					
Debtors	10	41		871	
Cash at bank and in hand		5,407		9,522	
		5,448		10,393	
Creditors: amounts falling due within one year	11	(363)		(137)	
Net current assets			5,085		10,256
Total assets less current liabilities			5,085		52,057
Creditors: amounts falling due after more than one year	12		(176,478)		(217,053)
Provisions for liabilities and charges	13		(333)		(333)
Net liabilities			(171,726)		(165,329)
Capital and reserves					
Called up share capital	15		4,935		4,935
Profit and loss account	15		(170,204)		(164,385)
	16		(165,266)		(159,450)
Minority interests	17		(6,460)		(5,879)
Equity shareholders' deficit			(171,726)		(165,329)

The notes on pages 11 to 21 form part of these financial statements

These financial statements were approved by the Board of Directors on 26 March 2012

Signed on behalf of the Board of Directors

Patrick Fox

Director

Company balance sheet
at 31 December 2011

	Notes	**2011**	2010
		£'000	£'000
Current assets			
Cash at bank and in hand		**1,684**	1,721
Debtors amounts falling due within one year		**10**	-
Creditors: amounts falling due within one year	*11*	**(43)**	(13)
Net current assets		**1,651**	1,708
Net assets		**1,651**	1,708
Capital and reserves			
Called up share capital	*15*	**4,935**	4,935
Profit and loss account	*15*	**(3,284)**	(3,227)
Equity shareholders' funds	*16*	**1,651**	1,708

The notes on pages 11 to 21 form part of these financial statements

These financial statements were approved by the Board of Directors on 26 March 2012

Signed on behalf of the Board of Directors

Patrick Fox

Director

Consolidated cash flow statement
for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Net cash inflow/(outflow) from operating activities	*19*	**898**	4,195
Returns on investments and servicing of finance	*20*	**(38,127)**	62
Taxation		**(897)**	298
Acquisitions and disposals	*20*	**52,036**	14,081
Dividends paid to equity minority interests	*17*	**(1,247)**	(2,593)
Net cash inflow/(outflow) before financing		**12,663**	16,043
Financing			
Interest on deep discounted bonds	*7*	**(16,778)**	(16,988)
Decrease in cash in the year	*21*	**(4,115)**	(945)

Reconciliation of net cash flow to movement in net debt
for the year ended 31 December 2011

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Decrease in cash in the year	**(4,115)**	(945)
Increase in net debt resulting from cash flows	**(4,115)**	(945)
Loan interest capitalised	**-**	(16,990)
Redemption of deep discounted bonds	**40,576**	13,000
Other	**-**	2
Increase in net debt in the period	**40,576**	(4,935)
Net debt at beginning of period	**(207,531)**	(202,596)
Net debt at end of period	**(171,070)**	(207,531)

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards The particular accounting policies adopted are described below and have been applied consistently in the current year and prior period

Accounting convention

The financial statements are prepared under the historical cost convention

Going concern

In previous years, the financial statements have been prepared on a going concern basis However, following the sale of the group's principal asset, its investment in Virgin Active Group Ltd ("VAGL"), as described in the Directors' Report, the directors have taken the decision to cease trading As the directors intend to liquidate the company following the settlement of the remaining net assets, they have not prepared the financial statements on a going concern basis No adjustments were necessary to the amounts at which the remaining net assets are included in the financial statements

Basis of consolidation

The financial statements consolidate the financial statements of the Company and all subsidiary undertakings for the year ended 31 December 2011 The results of subsidiaries acquired are consolidated for the periods from which control passed

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account is not presented in respect of the Company

Investments

Fixed asset investments are shown at cost less provision for impairment

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognisable only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation(continued)

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is measured on a non-discounted basis

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or if appropriate, at the forward contract rate

The results of overseas operations and their balance sheets are translated at the rates ruling at the balance sheet date Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are reported in the statement of total recognised gains and losses All other exchange differences are included in the profit and loss account

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a prevailing rate on the carrying amount

Notes *(continued)*

2 Segmental analysis

In the opinion of the Directors the group's activities constitute one class of business Turnover, profit/(loss) before interest and tax and net liabilities by geographical segment are as follows

	2011 Turnover (by origin) £'000	**2011 Profit before interest and tax £'000**	**2011 Net liabilities £'000**	2010 Turnover (by origin) £'000	2010 Profit before interest and tax £'000	2010 Net liabilities £'000
Continuing operations.						
UK	-	**10,076**	**(171,726)**	-	860	(165,329)
	-	**10,076**	**(171,726)**	-	860	(165,329)

3 Operating profit/(loss)

Operating profit/(loss) is stated after charging

	2011 £000	2010 £000
Auditors' remuneration		
Audit of these financial statements	**2**	2
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	**5**	5
Other services relating to taxation	**30**	25

4 Disposal on disposal of investments

	2011 £000	2010 £000
Profit on disposal of investments		
Cash Consideration	**17,800**	-
Less Cost of investment	**(7,566)**	-
	10,234	-

On the 20th October 2011, the Company disposed of its 12% equity investment in Virgin Active Group Limited for a cash consideration of £17 8 million

Notes *(continued)*

5 Information regarding directors and employees

Directors' emoluments

Neither of the Directors received any emoluments in respect to the roles as Directors of the Company in 2011 or 2010

In the year the group paid management fees of £30,000 *(2010 £30,000)* to Bridgepoint Capital Limited (for services rendered by P A C Fox) and £30,000 *(2010 £30,000)* to Permira Advisers LLP (for services rendered by P A Scholes)

Staff

The group and company did not employ any persons in the year *(2010 nil)*

6 Interest receivable and similar income

	2011	2010
	£000	£000
Bank interest	**55**	62
Loan note interest	**2,394**	3,468
	2,449	3,530

7 Interest payable and similar charges

	2011	2010
	£'000	£'000
Interest on deep discounted bonds	**16,778**	16,988
	16,778	16,988

Notes *(continued)*

8 Tax credit on loss on ordinary activities

Calculation of tax credit	2011 £000	2010 £'000
UK corporation tax on losses in the year	**(33)**	-
Adjustments in respect of prior years	-	-
	(33)	-
Current tax credit	**(33)**	-
Deferred tax		
Origination and reversal of timing differences	**(864)**	(298)
Adjustments in respect of prior years	-	-
Total tax credit on loss on ordinary activities	**(897)**	(298)

The current tax credit for the year is lower *(2010 lower)* than the standard rate of corporation tax in the UK of 26 5% *(2010 28%)* The differences are explained below

Current tax reconciliation:	2011 £'000	2010 £'000
Loss on ordinary activities before tax	**(4,253)**	(12,598)
Tax credit on loss on ordinary activities at 26 5% *(2010 28%)*	**(1,127)**	(3,527)
Effects of		
General expenses not deductible for tax purposes	**34**	4,526
Profits/losses not recognised	**(2,709)**	56
Brought forward tax losses utilised	**(611)**	(991)
Brought forward provision utilised	-	(64)
Deep Discount Bond interest	**4,446**	-
Current tax credit for the year	**(33)**	-

Notes *(continued)*

9 Investments

Group

	Other investments £'000	Other loans £'000	Total £'000
Cost and Net Book Value			
At 1 January 2011	7,565	34,236	**41,801**
Additions	-	3,413	**3,413**
Redemption	(7,565)	(40,043)	**(47,608)**
Accrued interest	-	2,394	**2,394**
At 31 December 2011	-	-	-

Other investments represent an equity stake of approximately 12% held by HCH&F Holdings Limited in Virgin Active Group Ltd , a company registered in the UK See Note 4 for details of disposal Other loans represent 8% loan notes issued by the same company, plus accrued interest (rolled up until maturity) and Health Club Group subscribed to an 18% Virgin Active Group Ltd Loan of £2 9 million This was subsequently redeemed by Virgin Active Group Ltd along with the original 8% Virgin Active Group Ltd Loan for £34 2 million including accrued interest for the year of £2 0 million

Company	**2011 £'000**	2010 £'000
Subsidiary undertakings		
Cost at 1 January and 31 December	**50**	50
Provision at 1 January	**(50)**	(50)
Provided in the year	**-**	-
Provision at 31 December	**(50)**	(50)
Net book value at 31 December	**-**	-

All controlled subsidiaries have been included in the consolidation Details of the principal subsidiary and other companies at 31 December 2011 are as follows

Name of company	Country of incorporation	Holding	Proportion Held
Direct and indirect subsidiaries			
Health Club Group plc	England and Wales	Ordinary shares	100%
HCH&F Holdings Limited	England and Wales	Ordinary shares	93 6%
Redmirror Limited (dissolved 13 April 2011)	England and Wales	Ordinary shares	100%
HC Leisure 3 Limited	England and Wales	Ordinary shares	100%

Notes *(continued)*

Investments (continued)
Direct and indirect investments

Virgin Active Group Limited (sold 20 October 2011)	England and Wales	Ordinary shares	12 5%

All of the above companies are holding companies

10 Debtors

	2011		2010	
	Group	**Company**	Group	Company
Amounts falling due within one year	**£'000**	**£'000**	£'000	£'000
Deferred tax asset (see note 13)	**-**	**-**	864	-
Other debtors	**41**	**10**	7	-
	41	**10**	871	-

There are no debtor amounts falling due after more than one year

11 Creditors: amounts falling due within one year

	2011		2010	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Amounts owed to group undertakings	**-**	**23**	-	7
Corporation tax	**33**	**-**	-	-
Other creditors	**201**	**20**	119	-
Accruals and deferred income	**129**	**-**	18	6
	363	**43**	137	13

Notes *(continued)*

12 Creditors: amounts falling due after more than one year

	Group 2011 £'000	Group (Restated) 2010 £'000
Deep discounted bonds (see below)	**176,478**	217,053

Deep discounted bonds

The following amounts are included in deep discounted bonds

	2011 £'000	2010 £'000
Principal	**90,914**	120,722
Rolled up interest	**85,564**	96,331
	176,478	217,053

The deep discounted bonds are unsecured On 18 November 2011, the company made a partial redemption in the amount of £57 4 million (2010 £13 million), which consisted of £29 8 million (2010 £7 3 million) in principal and £27 5 million (2010 £5 7 million) in rolled up interest The bonds are due for redemption in 2013 at the amount of £196 million including any unpaid interest thereon Interest is being recognised over the full term of the deep discounted bond at a constant rate of 8% on the outstanding amount

13 Provisions for liabilities and charges

Group

Other provisions	2011 £'000	2010 £'000
At 1 January	**333**	833
Provided in the year	-	-
Release during the year	-	(500)
At 31 December	**333**	333

Other provisions relate to legal provisions

Deferred tax (see note 10)

Deferred tax for the group is as follows	Provided 2011 £'000	Provided 2010 £'000	Unprovided 2011 £'000	Unprovided 2010 £'000
Others	-	864	**22,952**	21,766
Total asset	-	864	**22,952**	21,766

The deferred asset recognised relates to tax losses The Company had no deferred tax balance at either year end date

Notes *(continued)*

14 Called up share capital

		2011 £000	2010 £000
Authorised			
5,000,000,000	'A' shares of 10p each	**500**	500
55,500,000	'B' shares of 10p each	**5,550**	5,550
500,000	Deferred shares of 10p each	**50**	50
3,625,000	Capital shares of 0 01p each	**-**	-
Allotted, called up and fully paid			
4,350,000	'A' shares of 10p each	**435**	435
45,000,000	'B' shares of 10p each	**4,500**	4,500
3,387,500	Capital shares of 0 01p each	**-**	-

The 'A' and 'B' shares rank pari passu in all respects and constitute one class of shares

Capital shares constitute their own class of share and have different rights to the other classes of share The holders of Capital shares are not entitled to attend or vote at general meetings unless they are the only class of share in existence No dividends are payable on Capital shares

In the event of the Company being sold or capital being returned to shareholders, Capital shareholders will have their Capital Value returned to them first The Capital Value is determined according to a formula contained in the Articles of Association of the Company On payment of the Capital Value, Capital shares are automatically converted into Deferred shares at a rate of 1 Deferred share per complete 1,000 Capital shares

15 Statement of movements on reserves

	Share Capital £'000	Profit and loss account £'000	Total £'000
Group			
At 1 January 2011	4,935	(164,385)	(159,450)
Retained loss for the financial year	-	(5,816)	(5,816)
At 31 December 2011	**4,935**	**(170,201)**	**(165,266)**
Company			
At 1 January 2011	4,935	(3,227)	1,708
Retained loss for the financial year	-	(57)	(57)
At 31 December 2011	**4,935**	**(3,284)**	**1,651**

Notes *(continued)*

16 Reconciliation of movements in equity

	£'000
Group	
Retained loss for the financial year	(5,816)
Net decrease in shareholders' deficit	(5,816)
Opening shareholders' deficit	(159,450)
Closing shareholders' deficit	**(165,266)**
Company	
Retained loss for the financial year	(57)
Opening shareholders' funds	1,708
Closing shareholders' funds	1,651

17 Minority interests

	2011 £'000	2010 £'000
At 1 January	**(5,879)**	(3,460)
Profit on ordinary activities after taxation	**666**	174
Dividends paid during the year	**(1,247)**	(2,593)
At 31 December	**(6,460)**	(5,879)

18 Related party transactions

In the year the group paid management fees of £30,000 *(2010 £30,000)* to Bridgepoint Capital Limited and £30,000 *(2010 £30,000)*, both for services rendered by directors

19 Reconciliation of operating loss to net cash outflow from operating activities

	2011 £'000	2010 £'000
Operating profit/(loss)	**(158)**	860
Decrease/(Increase) in debtors	**830**	(265)
Increase/(decrease) in creditors and provisions	**226**	3,600
Net cash inflow/(outflow) from operating activities	**898**	4,195

Notes *(continued)*

20 Analysis of cash flows for headings netted in the cash flow statement

	2011 £'000	2010 £'000
Returns on investments and servicing of finance		
Interest received	**2,449**	62
DDB redeemed	**(40,576)**	-
Net cash inflow for returns on investments and servicing of finance	**(38,127)**	62
Acquisitions and disposals		
Disposal proceeds of investments	**17,800**	-
Acquisition of investments (see note 9)	**(3,413)**	(853)
Redemption of loan notes (see note 9)	**37,649**	14,934
Net cash inflow/(outflow) from acquisition and disposals	**52,036**	14,081

21 Analysis of net debt

	At 1 January 2011 £'000	Cash flow £'000	Non cash movements £'000	Other £'000	At 31 December 2011 £'000
Cash at bank and in hand	9,522	(4,115)	-	-	5,407
	9,522	(4,115)	-	-	5,407
Deep discounted bonds	(217,053)	57,354	(16,778)	-	(176,477)
Total	**(207,531)**	**53,239**	**(16,778)**	**-**	**(171,079)**

Non cash movements within 'deep discounted bonds' includes interest rolled-up into the deep discounted bond liability of £16,778,000

22 Controlling party

The Directors believe that the ultimate control of the group is equally divided between funds advised or managed by Bridgepoint Capital Limited and Permira Advisers LLP