**Health Club Group plc**

# Directors' report and financial statements

Registered number 04663223

31 December 2007

# Contents

# Directors' report

The Directors present their annual report on the affairs of the Company together with the financial statements and independent auditors' report for the year ended 31 December 2007

### Principal activity

The principal activity is that of a holding company for a group of companies engaged in the operation of health clubs

### Review of the business

The profit and loss account showing the loss for the year is set out on page 4 The Directors do not recommend payment of a dividend (2006 £nil)

The Company has met the requirements of the Companies Act 1985 to obtain the exemption provided from the presentation of an enhanced business review

### Directors

The directors who served throughout the year, except as noted below, were as follows

J-P Barade (resigned on 28 September 2007)
P A C Fox
A M Robinson (resigned 29 November 2007)
P A Scholes (appointed 28 September 2007)

### 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

A resolution to reappoint KPMG LLP as auditors of the group is to be proposed at the forthcoming Annual General Meeting

*Director*

The Quadrant
118 London Road
Kingston
Surrey
KT2 6QJ

4th September 2008

# 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 financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these 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 company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

## Independent auditors' report to the members of Health Club Group plc

We have audited the financial statements of Health Club Group plc for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
*Chartered Accountants*
*Registered Auditor*

4 Sept 2008

# Profit and loss account

*for the year ended 31 December 2007*

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Administrative expenses | | (27) | 13 |
| Provision against amounts due from group undertakings | | - | (150) |
| **Operating loss** | 3 | (27) | (137) |
| Interest receivable and similar income | 5 | 786 | 450 |
| Interest payable and similar charges | 6 | (15,454) | (14 414) |
| **Loss on ordinary activities before taxation** | | (14,695) | (14 101) |
| Tax on loss on ordinary activities | 7 | - | - |
| **Loss on ordinary activities for the financial year** | 13 | (14,695) | (14 101) |

All results derive from continuing operations

There have been no recognised gains or losses attributable to the shareholders other than the loss for the financial year and, accordingly, no statement of total recognised gains and losses is presented

## Balance Sheet
*at 31 December 2007*

| | Note | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £ 000 | £'000 |
| **Fixed assets** | | | | | |
| Investments | 8 | | - | | - |
| **Current assets** | | | | | |
| Debtors | 9 | 10,157 | | 7 092 | |
| Cash at bank and in hand | | 1,381 | | 3,688 | |
| | | 11,538 | | 10,780 | |
| **Creditors** amounts falling due within one year | 10 | (5,008) | | (4,651) | |
| **Net current assets** | | | 6,530 | | 6 129 |
| **Total assets less current liabilities** | | | 6,530 | | 6,129 |
| **Creditors** amounts falling due after more than one year | 11 | | (181,907) | | (166 811) |
| **Net liabilities** | | | (175,377) | | (160,682) |
| **Capital and reserves** | | | | | |
| Called up share capital | 12 | | 50 | | 50 |
| Profit and loss account | 13 | | (175,427) | | (160 732) |
| **Equity shareholders' deficit** | 14 | | (175,377) | | (160 682) |

These financial statements were approved by the Board of Directors on 4th Sept 2008

Signed on behalf of the Board of Directors

*Director*

# Notes

*(forming part of the financial statements)*

## 1 Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards The principal accounting policies adopted are described below They have all been applied consistently throughout the current and prior periods

*Accounting convention*

The financial statements are prepared under the historical cost convention

*Going concern*

The financial statements are prepared on a going concern basis as the Directors believe that the company will continue to be able to meet its debts as they fall due for at least the next 12 months from the date of approval of these accounts

The company has net liabilities of £175 4 million (2006 £160 7 million), of which £181 9 million (2006 £166 8 million) relates to deep discounted bonds which are not due for settlement until 2013 Therefore, current forecasts demonstrate that the Group has sufficient finances available to cover forecast cash flow requirements

*Cashflow statement*

As the company is a wholly owned subsidiary it has taken the exemption available under the terms of FRS1 (revised) from preparing a cashflow statement, as it is included in the cash flows of the parent company, which are publicly available

*Preparation of group accounts*

These accounts present information relating to Health Club Group plc, an individual undertaking and not of its associated companies The company is exempt from preparing consolidated accounts under Section 228 of the Companies Act 1985 Group accounts are prepared for its ultimate parent undertaking Health Club Holdings Limited, a company registered in England and Wales

*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 Company'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 recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the 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

*Investments*

Investments are shown at cost less provision for impairment

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Finance costs***

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

## 2 Segmental Information

The Company's principal activity is that of a holding company and its operations are viewed as being related to only one class of business and one geographical region

## 3 Operating loss

Auditors' remuneration for the audit of these financial statements was £2,500 (2006 £2,500)

## 4 Information regarding directors' and employees

The Directors of the Company are also directors of other Group companies Total directors' remuneration for services to the Group are disclosed in the accounts of the parent company Health Club Holdings Limited as it is not practicable to allocate this between their services as Directors of Health Club Group plc and their services as Directors of other Group companies Other than the directors there were no employees of the company in the year *(2006 nil)*

## 5 Interest receivable and similar income

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Intercompany interest receivable | 653 | 28 |
| Bank interest | 133 | 422 |
| | 786 | 451 |

## 6 Interest payable and similar charges

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Interest on deep discounted bonds | 13,534 | 12,530 |
| Amortisation of loan fees | 1,564 | 1,564 |
| Intercompany interest payable | 356 | 320 |
| | 15,454 | 14,414 |

## Notes *(continued)*

### 7 Tax on loss on ordinary activities

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Calculation of tax charge | - | - |
| UK corporation tax at 30% *(2006 30%)* | - | - |
| Current tax charge/(credit) | - | - |
| Deferred tax – timing differences origination and reversal | - | - |
| Total tax on loss on ordinary activities | - | - |
| *Factors affecting tax charge for the year* | | |
| Loss on ordinary activities before tax | (14,695) | (14,101) |
| Tax on loss on ordinary activities at 30% (2006 30%) | (4,409) | (4,230) |
| *Effects of* | | |
| General expenses not deductible for tax purposes | 3,234 | 45 |
| Group relief | 834 | 4 185 |
| Profits not taxed | 341 | - |
| Current tax charge for the year | - | - |

### 8 Fixed asset investments

| | Subsidiary Undertaking £'000 |
|---|---|
| *Cost* | |
| At 1 January 2007 and 31 December 2007 | 119 362 |
| *Provision* | |
| At 1 January 2007 and 31 December 2007 | 119 362 |
| *Net book value* | |
| **At 31 December 2007** | - |
| At 31 December 2006 | - |

The Company holds 93 6% of the shares of both Holmes Place Holdings Limited and Holmes Place Health & Fitness Holdings Limited, both intermediary holding companies incorporated in England and Wales

# Notes *(continued)*

## 9 Debtors

| | 2007 | 2006 |
|---|---|---|
| | £000 | £ 000 |
| Amounts due within one year | | |
| Amounts owed by group undertakings | 10,103 | 7 038 |
| Other debtors | 54 | 54 |
| | 10,157 | 7,092 |

## 10 Creditors amounts falling due within one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Sundry creditors | 8 | 6 |
| Amounts due to group undertakings | 5,000 | 4,645 |
| | 5,008 | 4,651 |

## 11 Creditors: amounts falling due after more than one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Deep discounted bonds | 181,907 | 166,811 |

**Deep discounted bonds**

| | | |
|---|---|---|
| The following amounts are included in deep discount bonds | | |
| Principal | 128,000 | 128,000 |
| Rolled up interest | 54,689 | 41,157 |
| Issue costs | (782) | (2,346) |
| | 181,907 | 166,811 |

The deep discounted bonds are unsecured The bonds are due for redemption in 2013 at the amount of £276 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

In accordance with Financial Reporting Standard ('FRS') 4 Capital Instruments, deep discounted bond issue costs of £7,820,000 have been netted off against the liability The costs are being amortised over 5 years Included in the profit and loss account for the period is amortisation of £1,564,020 relating to these issue costs *(2006 £1,564,020)*

# Notes *(continued)*

## 12 Called up share capital

| | 2007 £'000 | 2006 £ 000 |
|---|---|---|
| *Authorised* | | |
| 6 500,000 ordinary shares of £0 10 each | 650 | 650 |
| ***Allotted, called up and fully paid*** | | |
| 500 000 ordinary shares of £0 10 each | 50 | 50 |

## 13 Profit and loss account

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Balance at 1 January | (160,732) | (146,631) |
| Loss for the year | (14,695) | (14,101) |
| Balance at 31 December | (175,427) | (160,732) |

## 14 Reconciliation of movements in equity shareholders' deficit

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Shareholders' deficit at 1 January | (160,682) | (146,581) |
| Retained loss for the year | (14,695) | (14,101) |
| Shareholders' deficit at 31 December | (175,377) | (160,682) |

## 15 Immediate and ultimate parent company

The Company's immediate and ultimate parent undertaking and controlling party, at the balance sheet date, was Health Club Holdings Limited, a company incorporated in England and Wales Health Club Holdings Limited is the only parent undertaking for which group accounts are prepared Copies are available from M&N Group Limited, The Quadrant, 118 London Road Kingston Surrey KT2 6QJ

The Company has taken advantage of the exemption under Financial Reporting Standard 8 paragraph 3c not to disclose details of transactions with other group undertakings