

Health Club Group plc

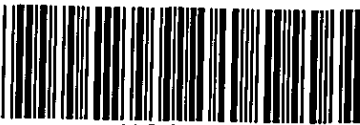
Directors' report and financial statements

Registered number 04663223

31 December 2010

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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 2010

Principal activity

The principal activity is that of a holding company

Review of the business

During the year the company made a partial redemption on 30 November 2010 of the Deep Discounted Bonds, as described more fully in note 13 to the Financial Statements

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 (2009 £nil)

Directors and their interests

The directors who served throughout the year were as follows

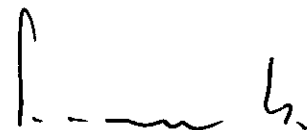
P A C Fox
P A Scholes

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



Director
PATRICK FOX

The Quadrant
118 London Road
Kingston
Surrey
KT2 6QJ

23 June 2011

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).

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 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.



KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's 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 2010 set out on pages 4 to 11. 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 2, 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 company's affairs as at 31 December 2010 and of its profit 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.

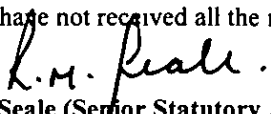
Opinion on other matter prescribed by the Companies Act 2006

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.


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

23 June 2011

Profit and loss account
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Administrative expenses		(82)	(287)
Operating loss	3	(82)	(287)
Profit on sale of subsidiary	5	-	4,142
Interest receivable and similar income	6	1,757	304
Interest payable and similar charges	7	(16,988)	(15,789)
Other income	8	37,897	-
Profit on ordinary activities before taxation		22,584	(11,630)
Tax credit on profit on ordinary activities	9	864	-
Profit on ordinary activities after taxation	16	23,448	(11,630)

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

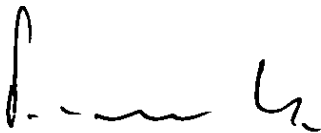
Balance Sheet
at 31 December 2010

	<i>Note</i>	2010	2009
		£000	£000
Fixed assets			
Investments	10	29,272	-
Current assets			
Debtors	11	1,900	4,000
Cash at bank and in hand		7,143	6,877
		<u>9,043</u>	<u>10,877</u>
Creditors, amounts falling due within one year	12	(6)	(4)
Net current assets		<u>9,037</u>	<u>10,873</u>
Total assets less current liabilities		<u>38,309</u>	<u>10,873</u>
Creditors, amounts falling due after more than one year	13	(217,051)	(213,063)
Net liabilities		<u>(178,742)</u>	<u>(202,190)</u>
Capital and reserves			
Called up share capital	15	50	50
Profit and loss account	16	(178,792)	(202,240)
Equity shareholders' deficit	17	<u>(178,742)</u>	<u>(202,190)</u>

The notes on pages 6 to 11 form part of these financial statements

These financial statements were approved by the Board of Directors on 23 June 2011

Signed on behalf of the Board of Directors



Director

PATRICK FOX

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 have been prepared on a going concern basis. The company has net liabilities of £178.7 million (2009: £202.2 million), of which £217.1 million (2009: £213.1 million) relates to deep discounted bonds which are not due for settlement until 2013. Therefore, current forecasts demonstrate that the company has sufficient finances available to cover forecast cash flow requirements to enable it to meet its liabilities as they fall due, for at least the next 12 months.

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 400 of the Companies Act 2006. 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 profit

Auditors' remuneration for the audit of these financial statements was £1,000 (2009 £1,000) Auditors' remuneration was borne in the current period by a related undertaking, HCH&F Holdings Limited, without any right of reimbursement

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 (2009 nil)

5 Profit on sale of subsidiary

On 20 February 2009, the company disposed of its subsidiary, HCHP (Holdings) Limited, and its subsidiary HC International Limited for proceeds of £4.1 million

6 Interest receivable and similar income

	2010 £000	2009 £000
Intercompany interest receivable	161	265
Bank interest	45	39
Other interest	1,551	-
	<u>1,757</u>	<u>304</u>

7 Interest payable and similar charges

	2010 £000	2009 £000
Interest on deep discounted bonds	16,988	15,782
Intercompany interest payable	-	7
	<u>16,988</u>	<u>15,789</u>

Notes (continued)

8 Other income

	2010 £000	2009 £000
Dividend income	37,897	-

During the year, the company received dividends of £37.9 million from HCH&F Holdings Limited. See note 10 below.

9 Tax credit on profit on ordinary activities

	2010 £000	2009 £000
Calculation of tax credit		
UK corporation tax at 28% (2009 28.5%)	-	-
Current tax credit		
Deferred tax – timing differences, origination and reversal	(864)	-
Total tax credit on profit on ordinary activities	(864)	-
<i>Factors affecting tax credit for the year</i>		
Profit on ordinary activities before tax	22,584	(11,630)
Tax on profit on ordinary activities at 28% (2009 28.5%)	6,323	(3,256)
<i>Effects of</i>		
General expenses not deductible for tax purposes	11	3,256
Income not taxable for tax purposes	(10,611)	-
Deep Discount Bond interest	4,757	-
Loss utilised in the period	(480)	-
Current tax credit for the year	-	-

10 Investments

	Loan Notes £000
<i>Net book value</i>	
At 1 January 2010	-
Additions	40,490
Partial redemption	(12,769)
Accrued interest	1,551
At 31 December 2010	29,272
At 31 December 2009	-

At 31 December 2010, the Company held 93.6% of the shares of HCH&F Holdings Limited, an intermediary holding company incorporated in Great Britain.

Notes (continued)

11 Debtors

	2010 £000	2009 £000
Amounts due within one year		
Amounts owed by group undertakings	1,019	3,983
Deferred tax (see note 14)	864	-
Other debtors	17	17
	<u>1,900</u>	<u>4,000</u>

12 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Other creditors	6	4
	<u>6</u>	<u>4</u>

13 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Deep discounted bonds	217,051	213,063
Deep discounted bonds		
The following amounts are included in deep discount bonds		
Principal	128,000	128,000
Rolled up interest	89,051	85,063
	<u>217,051</u>	<u>213,063</u>

The deep discounted bonds are unsecured. On 10 November 2010, the company made a partial redemption in the amount of £13 million, which consisted of £7.3 million in principal and £5.7 million in rolled up interest. The bonds are due for redemption in 2013 at the amount of £261 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.

Notes (continued)

14 Deferred tax

The following are the deferred tax assets recognised, and movements thereon during the year

	Tax losses £000	Total £000
At 1 January 2010	-	-
Recognised in the period (see note 11)	864	-
	<hr/>	<hr/>
At 31 December 2010	864	-
	<hr/> <hr/>	<hr/> <hr/>

15 Called up share capital

	2010 £000	2009 £000
<i>Authorised</i>		
6,500,000 ordinary shares of £0.10 each	650	650
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
500,000 ordinary shares of £0.10 each	50	50
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16 Profit and loss account

	2010 £000	2009 £000
Balance at 1 January	(202,240)	(190,610)
Profit for the year	23,448	(11,630)
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Balance at 31 December	(178,792)	(202,240)
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17 Reconciliation of movements in equity shareholders' deficit

	2010 £000	2009 £000
Shareholders' deficit at 1 January	(202,190)	(190,560)
Retained profit for the year	23,448	(11,630)
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Shareholders' deficit at 31 December	(178,742)	(202,190)
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Notes *(continued)*

18 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 Great Britain. Health Club Holdings Limited is the only parent undertaking for which group accounts are prepared. Copies are available from the Company secretary, M&N Group Limited, The Quadrant, 118 London Road, Kingston, Surrey K12 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.