

Health Club Group plc

Directors' report and financial statements

Registered number 04663223

31 December 2011

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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 2011

Principal activity

The principal activity is that of a holding company

In previous years, the financial statements have been prepared on a going concern basis. However, following the sale of the Company'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.

Results and dividends

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

Since 2006 the key asset of the Company has been its approximately 12% interest, through its subsidiary HCH&F Holdings Ltd, in loan notes and ordinary shares of Virgin Active Group Ltd ("VAGL"), the international chain of health clubs controlled by the Virgin Group, and the Company's own direct holding of VAGL loan notes (acquired in 2010). In July 2011 the Company subscribed in cash for £2.9 million new 18% Virgin Active Group Ltd ("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 Company received £34.2 million cash (including accrued interest).

At 31st December 2011 the Company had cash balances of £0.4 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 Company. This may result in a nominal final payment to shareholders or holders of Deep Discounted Bonds by a liquidator. Liquidations are a lengthy process and the timing (and amount) of any final payment cannot be forecast.

Going concern

At 31st December 2011 the Company had net liabilities of £176.1 million (2010: £178.8m). The company is in discussion with its two major bondholders, Bridgepoint Capital and Permira, who together own over 93% of the Deep Discounted Bonds issued by the Company, 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' report (continued)

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 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. 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 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.



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 2011 set out on pages 6 to 13. 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 company's affairs as at 31 December 2011 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

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.

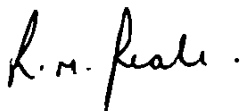
Opinion on other matter prescribed by the Companies Act 2006

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, 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

26 March 2012

Profit and loss account
for the year ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Administrative expenses		(79)	(82)
Operating loss	3	(79)	(82)
Interest receivable and similar income	5	2,124	1,757
Interest payable and similar charges	6	(16,778)	(16,988)
Other income	7	18,232	37,897
Profit on ordinary activities before taxation		3,499	22,584
Tax (charge)/credit on profit on ordinary activities	8	(864)	864
Profit on ordinary activities after taxation	15	2,635	23,448

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

All activities relate to continuing operations

Balance Sheet
at 31 December 2011

	<i>Note</i>	£000	2011 £000	2010 £000	£000
Fixed assets					
Investments	9		-		29,272
Current assets					
Debtors	10	10		1,900	
Cash at bank and in hand		413		7,143	
		423		9,043	
Creditors: amounts falling due within one year	11	(53)		(6)	
Net current assets			370		9,037
Total assets less current liabilities			370		38,309
Creditors: amounts falling due after more than one year	12		(176,477)		(217,051)
Net liabilities			(176,107)		(178,742)
Capital and reserves					
Called up share capital	14		50		50
Profit and loss account	15		(176,157)		(178,792)
Equity shareholders' deficit	16		(176,107)		(178,742)

The notes on pages 8 to 13 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

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 year.

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 Company'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.

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.

Notes (continued)

Accounting policies (continued)

Investments

Investments are shown at cost less provision for impairment

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

	2011 £000	2010 £000
<i>Operating profit is stated after charging</i>		
Audit fee for the audit of these financial statements	1	1
Amounts receivable by auditors and their associates in respect of Other services relating to taxation	13	-
	<u>14</u>	<u>1</u>

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 (2010 nil)

5 Interest receivable and similar income

	2011 £000	2010 £000
Intercompany interest receivable	41	161
Bank interest	36	45
Other interest	2,047	1,551
	<u>2,124</u>	<u>1,757</u>

Notes (continued)

6 Interest payable and similar charges

	2011 £000	2010 £000
Interest on deep discounted bonds	16,778	16,988
	<u>16,778</u>	<u>16,988</u>

7 Other income

	2011 £000	2010 £000
Dividend income	18,232	37,897
	<u>18,232</u>	<u>37,897</u>

During the year, the company received dividends of £18.2 million from HCH&F Holdings Limited

8 Tax charge on profit on ordinary activities

	2011 £000	2010 £000
Calculation of tax charge		
UK corporation tax at 26.5% (2010 28%)	-	-
	<u>-</u>	<u>-</u>
Current tax charge/(credit)	-	-
Deferred tax – timing differences, origination and reversal	864	(864)
	<u>864</u>	<u>(864)</u>
Total tax charge/(credit) on profit on ordinary activities	<u>864</u>	<u>(864)</u>
<i>Factors affecting tax charge/(credit) for the year</i>		
Profit on ordinary activities before tax	3,499	22,584
	<u>3,499</u>	<u>22,584</u>
Tax on profit on ordinary activities at 26.5% (2010 28%)	927	(6,323)
<i>Effects of</i>		
General expenses not deductible for tax purposes	6	11
Income not taxable for tax purposes	(4,816)	(10,611)
Deep Discount Bond interest	4,446	4,757
Loss utilised in the period	(563)	(480)
	<u>-</u>	<u>-</u>
Current tax charge/(credit) for the year	<u>-</u>	<u>-</u>

Notes (continued)

9 Investments

	Loan Notes £000
<i>Net book value</i>	
At 1 January 2011	29,272
Additions	2,918
Redemption	(34,237)
Accrued interest	2,047
At 31 December 2011	-
At 31 December 2010	29,272

On 14th July 2011, the Company subscribed to an 18% Virgin Active Loan of £2.9 million. This was subsequently redeemed by Virgin Active along with the original 8% Virgin Active Loan for £34.2 million including accrued interest for the year of £2.0 million.

At 31 December 2011, the Company held 93.6% of the shares of HCH&F Holdings Limited, an intermediary holding company incorporated in Great Britain.

10 Debtors

	2011 £000	2010 £000
Amounts due within one year		
Amounts owed by group undertakings	-	1,019
Deferred tax (see note 13)	-	864
Other debtors	10	17
	10	1,900

11 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Other creditors	29	6
Amounts owed to group undertakings	23	-
	52	6

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2011	(Restated)
	£000	2010 £000
Deep discounted bonds	176,477	217,051
Deep discounted bonds		
The following amounts are included in deep discount bonds		
Principal	90,914	120,722
Rolled up interest	85,563	96,331
	176,477	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 Deferred tax

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

	Tax losses	Total
	£000	£000
At 1 January 2011	864	864
Recognised in the period	(574)	(574)
De-recognised in the period	(290)	(290)
At 31 December 2011	-	-

14 Called up share capital

	2011	2010
	£000	£000
<i>Authorised</i>		
6,500,000 ordinary shares of £0.10 each	650	650
<i>Allotted, called up and fully paid</i>		
500,000 ordinary shares of £0.10 each	50	50

Notes *(continued)*

15 Profit and loss account

	2011 £000	2010 £000
Balance at 1 January 2011	(178,792)	(202,240)
Profit for the year	2,635	(23,448)
	<hr/>	<hr/>
Balance at 31 December 2011	(176,157)	(178,792)
	<hr/>	<hr/>

16 Reconciliation of movements in equity shareholders' deficit

	2011 £000	2010 £000
Shareholders' deficit at 1 January 2011	(178,742)	(202,190)
Retained profit for the year	2,635	(23,448)
	<hr/>	<hr/>
Shareholders' deficit at 31 December 2011	(176,107)	(178,742)
	<hr/>	<hr/>

17 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, 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.