

HEALTH CLUB GROUP PLC
(FORMERLY FORMCHARM PLC)

REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2003



**HEALTH CLUB GROUP PLC
(FORMERLY FORMCHARM PLC)**

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M I Burke
K B Connolly
A F A Emery*
A B H Fisher*¹
W N Jackson*
A C W Troup*
G P Weldon*

* Non-Executive Director

*¹ Non-Executive Director from 1 January 2004

SECRETARY

F Bingham

REGISTERED OFFICE

17A Old Court Place
London
W8 4HP

BANKERS

Lloyds TSB Bank plc
25 Gresham Street
London

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

**HEALTH CLUB GROUP PLC
(FORMERLY FORMCHARM PLC)**

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 period ended 31 December 2003.

INCORPORATION

The company was incorporated on 11 February 2003.

At incorporation the Company was called Formcharm plc. The Company changed its name to Health Club Group plc on 27 April 2003.

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 BUSINESS

The profit and loss account is set out on page 6 and shows a loss before and after tax of £2,049,287. The Company had net liabilities of £1,999,287 on 31 December 2003.

The Directors are satisfied with the result for the period and expect the results of the business to improve in the future.

DIVIDENDS

The Directors do not recommend payment of a dividend.

DIRECTORS AND THEIR INTERESTS

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

M N Black (appointed 14 April 2003 and resigned 22 July 2003)

M I Burke (appointed 23 July 2003)

K B Connolly (appointed 9 March 2004)

A F A Emery* (appointed 22 July 2003)

A B H Fisher*¹ (appointed 21 May 2003)

L D Ginsberg (appointed 21 May 2003 and resigned 9 March 2004)

W N Jackson* (appointed 22 July 2003)

I Sellars (appointed 21 May 2003 and resigned 22 July 2003)

A C W Troup* (appointed 21 May 2003)

G P Weldon* (appointed 14 April 2003)

Instant Companies Limited (appointed 11 February 2003 and resigned 14 April 2003)

Swift Incorporations Limited (appointed 11 February 2003 and resigned 14 April 2003)

* Non-Executive Director

*¹ Non-Executive Director from 1 January 2004

During the period no rights to subscribe for shares or debentures in the company were granted to or exercised by any of the Company's directors.

None of the Directors had any interests in this or any other Group companies apart from the ultimate parent company, Health Club Holdings plc, except A B H Fisher who held 10,625,720 shares and G P Weldon's wife, S K Weldon, who held 2,613 shares in Holmes Place Holdings Limited (formerly Holmes Place PLC), a subsidiary of the Company. These shares were bought by the Company on 23 July 2003 as part of the acquisition of the subsidiary. The interests of A B H Fisher and L D Ginsberg are disclosed in the financial statements of Health Club Holdings plc, the ultimate parent company.

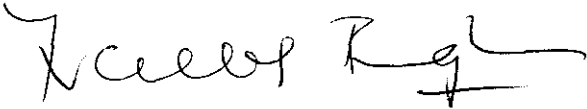
**HEALTH CLUB GROUP PLC
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DIRECTORS' REPORT (CONTINUED)

AUDITORS

Deloitte & Touche LLP were appointed as auditors on 4 December 2003. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

A handwritten signature in black ink, appearing to read 'F Bingham', with a stylized flourish at the end.

F Bingham
Secretary

30 June 2004

**HEALTH CLUB GROUP PLC
(FORMERLY FORMCHARM PLC)**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTH CLUB GROUP PLC

We have audited the financial statements of Health Club Group plc for the period from 11 February 2003, the date of incorporation, to 31 December 2003 which comprises the profit and loss account, the balance sheet and the related notes 1 to 15. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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. It also includes an assessment of the significant estimates and judgements 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 of the state of the company's affairs as at 31 December 2003 and of its loss for the period from 11 February 2003, the date of incorporation, to 31 December 2003 and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

30 June 2004

HEALTH CLUB GROUP PLC
(FORMERLY FORMCHARM PLC)

PROFIT AND LOSS ACCOUNT
Period ended 31 December 2003

	Note	Period to 31 December 2003 £
Other income	2	1,500,000
OPERATING PROFIT	3	<u>1,500,000</u>
Interest receivable and similar income	5	3,545,051
Interest payable and similar charges	6	<u>(7,094,338)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,049,287)
Tax on loss on ordinary activities	7	<u>-</u>
LOSS ON ORDINARY ACTIVITIES FOR THE FINANCIAL PERIOD AND LOSS RETAINED FOR THE PERIOD	14	<u><u>(2,049,287)</u></u>

All results derive from continuing operations.

There were no recognised gains and losses other than those shown above.

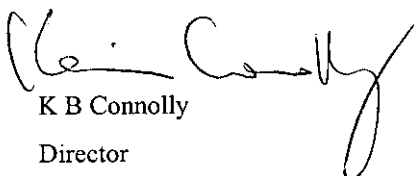
HEALTH CLUB GROUP PLC
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BALANCE SHEET
31 December 2003

	Note	2003 £
FIXED ASSETS		
Investments	8	<u>119,204,775</u>
CURRENT ASSETS		
Debtors	9	5,841,246
Cash at bank and in hand		<u>275,787</u>
		6,117,033
CREDITORS: amounts falling due within one year	10	<u>(46,847)</u>
NET CURRENT ASSETS		<u>6,070,186</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		125,274,961
CREDITORS: amounts falling due after more than one year	11	<u>(127,274,248)</u>
NET LIABILITIES		<u><u>(1,999,287)</u></u>
CAPITAL AND RESERVES		
Called up share capital	12	50,000
Profit and loss account	13	<u>(2,049,287)</u>
EQUITY SHAREHOLDERS' DEFICIT	14	<u><u>(1,999,287)</u></u>

These financial statements were approved by the Board of Directors on 30 June 2004.

Signed on behalf of the Board of Directors


K B Connolly
Director

NOTES TO THE ACCOUNTS
Period ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. They have all been applied consistently throughout the period.

Accounting convention

The financial statements are prepared under the historical cost convention.

Accounting period

The financial statements are for the 323 days from the date of incorporation, 11 February 2003, to 31 December 2003.

Turnover

Turnover represents the amount derived from the provision of goods and services which falls within the company's ordinary activities, entirely within the United Kingdom. All amounts are stated net of tax.

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. In the opinion of the directors, 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 plc, 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.

HEALTH CLUB GROUP PLC
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NOTES TO THE ACCOUNTS
Period ended 31 December 2003

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. OTHER INCOME

All income was derived from group undertakings.

3. OPERATING PROFIT

Auditors' remuneration was borne by the ultimate parent company.

4. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES

The Directors of the Company are also directors of other Group companies. Total directors' remuneration for the Group of £460,784 was borne by Holmes Place Holdings Limited, a subsidiary undertaking, but 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.

	Period to 31 December 2003 £
Total aggregate emoluments	427,334
Total company pension contributions to money purchase scheme	33,450
	<u>460,784</u>
Emoluments (excluding pension contributions) of the highest paid director	<u>160,078</u>

The Company has no other employees.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 31 December 2003 £
Interest receivable from group companies	3,538,849
Bank interest	6,202
	<u>3,545,051</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 31 December 2003 £
Interest on deep discounted bonds	6,312,329
Amortisation of loan fees	782,009
	<u>7,094,338</u>

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NOTES TO THE ACCOUNTS
Period ended 31 December 2003

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	Period to 31 December 2003
	£
Calculation of tax charge	
UK corporation tax at 30%	-
	<hr/>
Current tax charge / (credit)	-
Deferred tax – timing differences, origination and reversal	-
	<hr/>
Total tax on loss on ordinary activities	-
	<hr/> <hr/>
	Period to 31 December 2003
	£
Factors affecting tax charge for the period	
Loss on ordinary activities before tax	(2,049,287)
	<hr/>
Tax on loss on ordinary activities at 30%	(614,786)
Losses which cannot be utilised	177,606
Effect of group relief	437,180
	<hr/>
Current tax charge for the period	-

8. FIXED ASSET INVESTMENTS

	2003 £
Subsidiary undertakings	
Cost	
At 11 February 2003	-
Acquisition	119,204,775
At 31 December 2003	119,204,775

On 23 July 2003, the Company acquired 87.7% of the issued share capital of Holmes Place Holdings Limited (formerly Holmes Place PLC) for a consideration of £25,241,000.

Subsequently, Holmes Place Holdings Limited (formerly Holmes Place PLC) had an open offer pursuant to which shareholders were invited to subscribe for 39 New Ordinary shares for every 10 Holmes Place Holdings Limited shares held on 17 September 2003. The Company took up its full entitlement to shares and the shares not taken up by the minority shareholders. This resulted in the overall holding of the Company in Holmes Place Holdings Limited increasing by 5.72% to 93.42% at year end.

The company's principal subsidiary at 31 December 2003 is Holmes Place Holdings Limited (formerly known as Holmes Place PLC), a company incorporated in Great Britain. As noted above, the company holds 93.42% of the issued ordinary share capital of Holmes Place Holdings Limited.

HEALTH CLUB GROUP PLC
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NOTES TO THE ACCOUNTS
Period ended 31 December 2003

9. DEBTORS

	2003 £
Amounts due within one year:	
Other taxation and social security	624,610
Amounts owed by group undertakings	5,162,774
Other debtors	53,862
	<u>5,841,246</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £
Accruals and deferred income	<u>46,847</u>

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003 £
Deep discounted bonds	<u>127,274,248</u>
Deep discounted bonds	
The following amounts are included in deep discount bonds:	
Principal	128,000,000
Rolled up interest	6,312,329
Issue costs	(7,038,081)
	<u>127,274,248</u>

Deep Discounted Bonds

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 FRS 4, 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 £782,000 relating to these issue costs.

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NOTES TO THE ACCOUNTS
Period ended 31 December 2003

12. CALLED UP SHARE CAPITAL

	2003
	£
Authorised:	
6,500,000 ordinary shares of £0.10 each	650,000
	<u> </u>
Called up, allotted and fully paid	
500,000 ordinary shares of £0.10 each	50,000
	<u> </u>

13. PROFIT AND LOSS ACCOUNT

	2003
	£
Balance at 11 February 2003	-
Loss for the period	(2,049,287)
	<u> </u>
Balance at 31 December 2003	(2,049,287)
	<u> </u>

14. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' DEFICIT

	£
Share capital issued (see note 12)	50,000
Retained loss for the period	(2,049,287)
	<u> </u>
Shareholders' deficit at 31 December 2003	(1,999,287)
	<u> </u>

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 plc, a company incorporated in England and Wales. Health Club Holdings plc is the only parent undertaking for which group accounts are prepared. Copies are available from 17A Old Court Place, London W8 4HP.

At the balance sheet date the smallest and largest group for which consolidated accounts are prepared is Health Club Holdings plc.

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