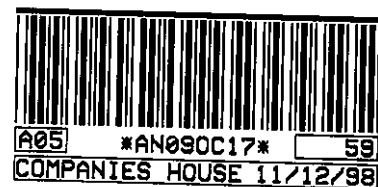


**C. S. LEISURE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 JULY 1998**



C. S. LEISURE LIMITED

COMPANY INFORMATION

Directors	F. Turok D. Turner J. Taylor
Secretary	S. Wenbourne
Company Number	1728962
Registered Office	235 Old Marylebone Road London NW1 5QT
Auditors	Wilder Coe Chartered Accountants 233 - 237 Old Marylebone Road London NW1 5QT KPMG Chartered Accountants Norfolk House Silbury Boulevard Central Milton Keynes MK9 2HA
Principal Bankers	Midland Bank Plc 69 Pall Mall London SW1Y 5EY

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C. S. LEISURE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 1998

The directors present their report and the audited financial statements for the year ended 31 July 1998.

Statement of directors' responsibilities

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 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, subject to any material departures disclosed and explained in the financial statements;
- 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities and review of business

The company's principal activity continues to be that of the ownership and operation of health and fitness centres and related activities.

On 1 May 1998, the company transferred its business as a going concern to L A Fitness (1998) Limited. A licence fee is charged to L A Fitness (1998) Limited by the company for certain property and assets which continue to be owned by the company.

The directors are satisfied with the performance of the company during the year. It is anticipated that turnover and profitability will continue to show improvement in the coming year due to focused attention to sales and marketing.

Dividends

An interim dividend of £140,000 (£140 per share) (1997 - £130,000 (£130 per share)) on Ordinary shares was paid in the year.

Year 2000

The directors have considered and assessed the year 2000 issue and do not consider its effect on the company to be material.

Directors

The directors who served during the year and their beneficial interests in the ultimate parent undertaking's issued share capital, including connected party interests were :

	Ordinary shares of 5p each		Cumulative Redeemable Preference shares of £1 each	
	1998	1997	1998	1997
F. Turok	2,809,334	2,850,000	100,000	100,000
D. Turner	1,659,335	1,700,000	100,000	100,000
J. Taylor	409,331	450,000	-	-

The directors' interests in or contracts with the company during the year are disclosed in Note 20 to the financial statements.

C. S. LEISURE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 1998 (CONTINUED)

Auditors

Wilder Coe and KPMG were appointed as joint auditors for the current year. KPMG will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on16 November 1998..... and signed on its behalf.

S. Wenbourne
S. Wenbourne
Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS OF C. S. LEISURE LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 7.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

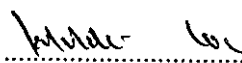
Basis of opinion

We conducted our audit in accordance with 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.

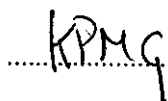
Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 July 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


.....

Wilder Coe

Chartered Accountants and Registered Auditors
233 - 237 Old Marylebone Road
London
NW1 5QT


.....

KPMG

Chartered Accountants and Registered Auditors
Norfolk House
Silbury Boulevard
Central Milton Keynes
MK9 2HA

Date: 17 November 1998

Date: 17 November 1998

C. S. LEISURE LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JULY 1998**

	Note	1998 £	1997 £
TURNOVER	1,2	580,194	520,671
Cost of sales		(303,468)	(296,887)
GROSS PROFIT		276,726	223,784
Administrative expenses		(126,598)	(124,848)
OPERATING PROFIT	3	150,128	98,936
Interest receivable		-	1,577
Interest payable	5	(2,462)	(30,539)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		147,666	69,974
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	6	-	(180)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		147,666	69,794
DIVIDENDS	7	(140,000)	(130,000)
RETAINED PROFIT/(LOSS) FOR THE YEAR		7,666	(60,206)
RETAINED PROFIT BROUGHT FORWARD		132,320	192,526
Transferred from Revaluation Reserve		814	-
RETAINED PROFIT CARRIED FORWARD		£ 140,800	£ 132,320

Turnover and operating profit derive wholly from continuing operations.

There were no recognised gains and losses for 1998 or 1997 other than those included in the profit and loss account.


The notes on pages 6 to 13 form part of these financial statements.

C. S. LEISURE LIMITED

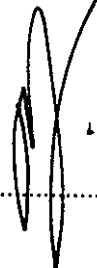
BALANCE SHEET
AS AT 31 JULY 1998

	Note	£	1998 £	£	1997 £
FIXED ASSETS					
Tangible fixed assets	8		746,385		370,695
Investments	9		293,125		293,125
			<u>1,039,510</u>		<u>663,820</u>
CURRENT ASSETS					
Stocks	10	-		1,576	
Debtors	11	439,026		297,916	
Cash at bank and in hand		60,007		1,580	
			<u>499,033</u>	<u>301,072</u>	
CREDITORS: amounts falling due within one year	12	(305,759)		(830,758)	
NET CURRENT ASSETS/(LIABILITIES)			<u>193,274</u>		<u>(529,686)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>1,232,784</u>		<u>134,134</u>
CREDITORS: amounts falling due after more than one year	13		<u>(1,090,984)</u>		<u>-</u>
NET ASSETS			<u>£ 141,800</u>		<u>£ 134,134</u>
CAPITAL AND RESERVES					
Called up share capital	15		1,000		1,000
Revaluation reserve	16		-		814
Profit and loss account			140,800		132,320
EQUITY SHAREHOLDERS' FUNDS	17		<u>£ 141,800</u>		<u>£ 134,134</u>

The financial statements were approved by the board on 16 November 1998 and signed on its behalf


.....
D. Turner

Director


.....
F. Turok

Director

The notes on pages 6 to 13 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998**

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and include the results of the company's operations which are described in the Directors' Report and all of which are continuing.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cash flow statement on the grounds that it is itself a subsidiary company and its parent undertaking prepares consolidated financial statements which include a consolidated cash flow statement.

The company has taken advantage of the exemption in Section 3(c) of FRS No 8 not to disclose transactions with group entities on the grounds that all subsidiaries are at least 90% subsidiary undertakings whose results are included in publicly available consolidated Financial Statements.

1.2 Turnover

Turnover comprises the value of goods and services supplied by the company, exclusive of value added tax. Membership subscription income is recognised evenly over the membership year.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold buildings	-	Straight line over the life of the lease
Motor vehicles	-	25% Reducing balance
Fixtures & equipment	-	12.5% straight line or 20% reducing balance

With effect from 1 August 1997, gym equipment is depreciated on a straight line basis over eight years in accordance with generally accepted practice in the industry. Previously this equipment was depreciated at 20% on a reducing balance basis. It was felt that this change in method of depreciation gives a fairer presentation of the company's results and financial position. The impact of the change in method of depreciation was to reduce the current year depreciation charge by £4,203.

1.4 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.5 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit and loss account as incurred.

1.6 Stocks

Stocks are valued at the lower of cost and net realisable value.

C. S. LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 1998

1.7 Deferred taxation

Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes, using the liability method, only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the near future.

1.8 Pre-opening expenditure

Pre-opening property, sales and marketing costs associated with clubs under construction are carried forward until the opening date of the relevant club and then amortised on a straight line basis over two years from the date of opening.

2. TURNOVER

The whole of the turnover and profit before taxation is attributable to the one principal activity of the company, being that of the ownership and operation of health and fitness centres and related activities.

The company's turnover arose entirely within the U. K.

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	1998 £	1997 £
Depreciation of tangible fixed assets		
- owned by the company	73,701	40,404
- held under finance leases	4,528	-
Audit fees	2,700	4,190
Operating lease rentals		
- hire of equipment	4,236	2,554
- land and buildings	69,667	77,836
Rent receivable	(25,800)	(41,800)
	<u> </u>	<u> </u>

No director received any emoluments (1997 - £Nil)

During the year the company's operating profit benefited by approximately £14,000 as a result of a VAT planning scheme which may be curtailed in the future.

4. STAFF COSTS

Staff costs were as follows:

	1998 £	1997 £
Wages and salaries	89,736	106,904
Social security costs	7,963	9,551
	<u> </u>	<u> </u>
	£ 97,699	£ 116,455
	<u> </u>	<u> </u>

C. S. LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998

The average monthly number of employees, including directors, during the year was as follows:

	1998	1997
Club activities	8	7
Marketing	1	1
	<u>9</u>	<u>8</u>

5. INTEREST PAYABLE

	1998 £	1997 £
Bank interest	-	1,229
On other loans	750	29,310
On finance leases and hire purchase contracts	1,712	-
	<u>£ 2,462</u>	<u>£ 30,539</u>

6. TAXATION

Prior years

	1998 £	1997 £
UK Corporation Tax	<u>£ -</u>	<u>£ 180</u>

The effective tax rate is nil due to the utilisation of group relief and due to high levels of capital allowances giving rise to timing differences which are not likely to reverse in the foreseeable future.

7. DIVIDENDS

	1998 £	1997 £
Ordinary - interim	<u>£ 140,000</u>	<u>£ 130,000</u>

C. S. LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998

8. TANGIBLE ASSETS

	Leasehold Land & Buildings £	Fixtures & Equipment £	Motor Vehicles £	Total £
Cost				
At 1 August 1997	288,591	282,454	14,000	585,045
Additions	366,176	91,527	-	457,703
Disposals	-	-	(14,000)	(14,000)
At 31 July 1998	<u>654,767</u>	<u>373,981</u>	<u>-</u>	<u>1,028,748</u>
Depreciation				
At 1 August 1997	54,203	149,931	10,216	214,350
Charge for year	43,128	35,101	-	78,229
On disposals	-	-	(10,216)	(10,216)
At 31 July 1998	<u>97,331</u>	<u>185,032</u>	<u>-</u>	<u>282,363</u>
Net Book Value				
At 31 July 1998	<u>£ 557,436</u>	<u>£ 188,949</u>	<u>£ -</u>	<u>£ 746,385</u>
At 31 July 1997	<u>£ 234,388</u>	<u>£ 132,523</u>	<u>£ 3,784</u>	<u>£ 370,695</u>

At 31 July 1998, £ 557,436 (1997 - £234,388) included within the net book value of land and buildings relates to short term leasehold land and buildings.

Included above are assets held under finance leases or hire purchase contracts with a net book value as follows:

	1998 £	1997 £
Fixtures and Equipment	<u>£ 47,091</u>	<u>£ -</u>

Net obligations under finance lease and hire purchase contracts are secured on the assets acquired.

C. S. LEISURE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998**

9. FIXED ASSET INVESTMENTS

	Shares in group undertakings £
Cost	
At 1 August 1997	293,125
At 31 July 1998	<u>293,125</u>
Net Book Value	
At 31 July 1998	£ 293,125
At 31 July 1997	<u>£ 293,125</u>

Investments include an investment in a subsidiary, L. A. Fitness plc, comprising a holding of 100% of its issued ordinary capital. L. A. Fitness plc is a company incorporated and operating in England.

During its latest financial year L. A. Fitness plc made a profit after tax of £340,353 (1997 - £19,982) and at the end of that year the aggregate of its capital and reserves was £468,402 (1997 - £274,197).

10. STOCKS

	1998 £	1997 £
Finished goods for resale	£ -	£ 1,576

11. DEBTORS

	1998 £	1997 £
Due within one year		
Trade debtors	-	9,430
Amounts owed by group undertakings	386,047	261,173
Other debtors	39,252	7,779
Prepayments and accrued income	13,727	19,534
	<u>£ 439,026</u>	<u>£ 297,916</u>

C. S. LEISURE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998**

12. CREDITORS:

Amounts falling due within one year

	1998 £	1997 £
Bank loans and overdrafts (secured - see below)	-	93,603
Trade creditors	-	8,842
Amounts owed to group undertakings	293,575	478,105
Net obligations under finance lease and hire purchase contracts	10,720	-
Social security and other taxes	-	32,329
Other creditors	1,464	65,592
Accruals and deferred income	-	152,287
	<u>£ 305,759</u>	<u>£ 830,758</u>

The bank overdraft is secured by a fixed and floating charge over all assets registered on 17 May 1997, and by an unlimited multilateral company guarantee given by the group undertakings to secure the liabilities of each other.

Net obligations under finance lease and hire purchase contracts are secured on the assets acquired.

13. CREDITORS:

Amounts falling due after more than one year

	1998 £	1997 £
Net obligations under finance lease and hire purchase contracts	33,949	-
Amounts owed to group undertakings	1,057,035	-
	<u>£ 1,090,984</u>	<u>£ -</u>
Included within the above are amounts falling due as follows:		
In 1 - 2 years:		
Finance lease and hire purchase obligations	£ 10,720	£ -
In 2 - 5 years:		
Finance lease and hire purchase obligations	£ 23,229	£ -

14. PROVISIONS FOR LIABILITIES AND CHARGES

The additional potential liability for deferred taxation not provided was as follows:

	1998 £	1997 £
Capital allowances in excess of depreciation	£ 42,338	£ -

C. S. LEISURE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998**

15. SHARE CAPITAL

	1998 £	1997 £
Authorised		
1,000 Ordinary shares of £1 each	£ 1,000	£ 1,000
Issued, allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	£ 1,000	£ 1,000

16. RESERVES

	£ 1998	£ 1997
Revaluation Reserve		
At 1 August 1997	814	814
Transfer to Profit and Loss account	(814)	-
At 31 July 1998	£ -	£ 814

17. EQUITY SHAREHOLDERS' FUNDS

Reconciliation of movements on shareholders' funds

	1998 £	1997 £
Profit for the year	147,666	69,794
Dividends	(140,000)	(130,000)
	7,666	(60,206)
Opening shareholders' funds	134,134	194,340
Closing shareholders' funds	£ 141,800	£ 134,134

18. CONTINGENT LIABILITIES

The company has provided cross guarantees to its bankers in respect of the bank borrowings of other group undertakings. A contingent liability therefore exists to the extent of the bank borrowings of the other group undertakings. At the year end this amounted to £2,230,804 (1997 - £469,007).

19. OTHER COMMITMENTS

At 31 July 1998 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 1998 £	1997 £
Expiry date:		
In more than 5 years	70,000	77,836

C. S. LEISURE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 1998**

20. TRANSACTIONS WITH DIRECTORS

Included in accruals and deferred income is an amount of £Nil (1997 - £4,750) relating to accrued interest on the loan of £Nil (1997 - £50,000) due to F. Turok, which is included in other creditors due within one year. During the year the company repaid F. Turok's loan account amounting to £50,000 together with interest of £750.

During the year, rent of £69,997 (1997 - £66,917) was paid to Spiremill Limited, a company in which D. Turner has an interest in as both a director and a shareholder.

21. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is L. A. Leisure Limited, a company incorporated in England.

A copy of the group financial statements can be obtained from the registered office, 235 Old Marylebone Road, London NW1 5QT.

22. ULTIMATE CONTROLLING PARTY

The controlling party of the company is L. A. Leisure Limited. The company does not have an ultimate controlling party.