LA Fitness Limited
(formerly CS Leisure Limited)

Directors' report and financial statements

31 July 1999
Registered number 1728962

Directors' report and financial statements

Contents

Company information

Directors	F Turok D Turner J Taylor
Secretary	S Wenbourne
Registered office	60 Commercial Road London E1 1LP
Auditors	KPMG Chartered Accountants Registered Auditors Norfolk House Silbury Boulevard Central Milton Keynes MK9 2HA
Principal bankers	Barclays Bank Plc 54 Lombard Street London EC3V 9EX

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 July 1999.

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 August 1998 the following group companies transferred their trade and assets to LA Fitness Limited: LA (Golders Green), LA Westminster Limited and CS Leisure Plc. On 31 January 1999 LA Hair & Beauty transferred some of its trade and assets to LA Fitness Limited.

On 22 April 1999, the company changed its name to LA Fitness Limited.

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 on sales and marketing.

Dividends

The directors recommend the payment of a dividend of £750,000 (£750 per share). An interim dividend of £Nil *(1998: £140,000 (£140 per share))* on ordinary shares was paid in the year.

Millennium and IT risk

The directors have considered the implication of the millennium bug and do not anticipate that the operational and business issues will have a significant impact on the company. Any costs incurred in addressing any issues will be charged directly to the profit and loss account.

Directors and directors' interests

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**	
	31 July 1999	31 July 1998	**31 July 1999**	31 July 1998
F Turok	**2,769,004**	2,809,334	**100,000**	100,000
D Turner	**1,659,335**	1,659,335	**100,000**	100,000
J Taylor	**409,331**	409,331	-	-

The directors' interests in or contracts with the company during the year are disclosed in note 21 to the financial statements.

None of the directors who held office at the end of the year had any disclosure interest in the shares of the company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

S. Wenbo

S Wenbourne
Secretary

60 Commercial Road
London
E1 1LP

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 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 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.

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Central Milton Keynes
Buckinghamshire, MK9 2HA
United Kingdom

Report of the auditors to the members of LA Fitness Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG.

Chartered Accountants
Registered Auditors

21 September 1999.

Profit and loss account

for the year ended 31 July 1999

	Note	1999 £	1998 £
Turnover	*1,2*	4,985,014	580,194
Cost of sales		(2,618,034)	(303,468)
Gross profit		2,366,980	276,726
Administrative expenses		(737,964)	(126,598)
Operating profit		1,629,016	150,128
Interest payable	*5*	(74,431)	(2,462)
Profit on ordinary activities before taxation		1,554,585	147,666
Taxation on profit on ordinary activities	*6*	-	-
Profit on ordinary activities after taxation	*3-4*	1,554,585	147,666
Dividends		(750,000)	(140,000)
Retained profit for the year	*3*	804,585	7,666
Retained profit brought forward		140,800	132,320
Transferred from revaluation reserve		-	814
Retained profit carried forward		945,385	140,800

Turnover and operating profit derive wholly from continuing operations.

There were no recognised gains or losses for 1999 or 1998 other than those included in the profit and loss account.

The notes on pages 7 to 16 form part of these financial statements.

Balance sheet
at 31 July 1999

	Note	1999		1998	
		£	£	£	£
Fixed assets					
Intangible assets	*8*		**29,680**		-
Tangible assets	*9*		**11,488,861**		746,385
Investments	*10*		**293,125**		293,125
			11,811,666		1,039,510
Current assets					
Stocks	*11*	**13,964**		-	
Debtors	*12*	**912,856**		439,026	
Cash at bank and in hand		**36,657**		60,007	
		963,477		499,033	
Creditors: amounts falling due within one year	*13*	**(7,255,019)**		(305,759)	
Net current (liabilities)/assets			**(6,291,542)**		193,274
Total assets less current liabilities			**5,520,124**		1,232,784
Creditors: amounts falling due after more than one year	*14*		**(4,573,739)**		(1,090,984)
Net assets			**946,385**		141,800
Capital and reserves					
Called up share capital	*16*		**1,000**		1,000
Revaluation reserve	*17*		**-**		-
Profit and loss account			**945,385**		140,800
Equity shareholders' funds	*18*		**946,385**		141,800

These financial statements were approved by the board of directors on 21 September 1999 and were signed on its behalf by:

F Turok
Director

D Turner
Director

The notes on pages 7 to 16 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules 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.

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.

Intangible fixed assets

Intangible fixed assets represents purchased goodwill, being the excess of cost over aggregate fair value of its separable net assets. It is being written off in equal annual instalments over its estimated useful economic life of 20 years.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less 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 land and buildings	-	straight line over the life of the lease
Motor vehicles	-	25% reducing balance
Fixtures and equipment	-	12.5% straight line or 20% reducing balance

In accordance with FRS11, the directors consider the carrying value of fixed assets for impairment. Any reductions in value arising from the impairment of fixed assets is charged to the profit and loss account for the year.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Stocks

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

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.

Pre-opening expenditure

Pre-opening sales and marketing costs associated with clubs under construction are carried forward until the opening date of the relevant club. Prior to 1 August 1998, these costs were written off over 24 months. For clubs opening after 1 August 1998, such costs are expensed over a period of 12 months.

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 United Kingdom.

Notes *(continued)*

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	1999	1998
	£	£
Depreciation of tangible fixed assets		
- owned by the company	**532,135**	73,701
- held under finance leases	**80,509**	4,528
Audit fees	**17,080**	2,700
Operating lease rentals		
- hire of equipment	**10,843**	4,236
- land and buildings	**854,296**	69,667
Rent receivable	**(72,227)**	(25,800)

No director received any emoluments *(1998: £Nil)*.

4 Staff numbers and costs

Staff costs were as follows:

	1999	1998
	£	£
Wages and salaries	**806,404**	89,736
Social security costs	**47,258**	7,963
	853,662	97,699

The average monthly number of persons employed by the company, including directors, analysed by category, during the year was as follows:

	Number of employees	
	1999	1998
Club activities	**133**	8
Marketing	**13**	1
	146	9

Notes *(continued)*

5 Interest payable

	1999 £	1998 £
Bank interest	3,002	-
On other loans	-	750
On finance lease and hire purchase contracts	71,429	1,712
	74,431	2,462

6 Taxation

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

	1999 £	1998 £
Ordinary - interim	-	140,000

8 Intangible fixed assets

	Goodwill £
Cost	
At beginning of year	-
Transfer from group undertakings	36,906
At end of year	36,906
Amortisation	
At beginning of year	-
Transfer from group undertakings	5,381
Charge for year	1,845
At end of year	7,226
Net book value	
At 31 July 1999	**29,680**
At 31July 1998	-

Notes *(continued)*

9 Tangible fixed assets

	Leasehold land & buildings £	Fixtures & equipment £	Motor vehicles £	Total £
Cost or valuation				
At beginning of year	654,767	373,981	-	1,028,748
Additions	5,685,861	1,551,650	-	7,237,511
Disposals	-	-	-	-
Transfer from group undertakings	2,895,669	1,843,255	14,500	4,753,424
At end of year	9,236,297	3,768,886	14,500	13,019,683
Depreciation				
At beginning of year	97,331	185,032	-	282,363
Charge for year	257,835	353,784	1,025	612,644
On disposals	-	-	-	-
Transfer from group undertakings	233,722	391,692	10,401	635,815
At end of year	588,888	930,508	11,426	1,530,822
Net book value				
At 31 July 1999	**8,647,409**	**2,838,378**	**3,074**	**11,488,861**
At 31July 1998	557,436	188,949	-	746,385

At 31 July 1999, £8,647,409 *(1998: £557,436)* included within the net book value of leasehold land and buildings relates to short term leasehold property.

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

	1999 £	1998 £
Fixtures and equipment	**948,119**	47,091

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

10 Fixed asset investments

	Shares in group undertakings £
Cost	
At 31 July 1998 and 31 July 1999	293,125
Net book value	
At 31 July 1998 and 31 July 1999	293,125

Notes *(continued)*

11 Stocks

	1999 £	1998 £
Finished goods for resale	**13,964**	-

12 Debtors

	1999 £	1998 £
Due within one year		
Trade debtors	**11,081**	-
Amounts owed by group undertakings	-	386,047
Other debtors	**36,172**	39,252
Prepayments and accrued income	**865,603**	13,727
	912,856	439,026

13 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts (secured - see below)	**723,674**	-
Trade creditors	**609,261**	-
Amounts owed to group undertakings	**4,633,816**	293,575
Net obligations under finance lease and hire purchase contracts	**256,809**	10,720
Social security and other taxes	**56,909**	-
Other creditors	**3,594**	1,464
Accruals and deferred income	**970,956**	-
	7,255,019	305,759

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.

Notes *(continued)*

14 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Net obligations under finance lease and hire purchase contracts	**646,180**	33,949
Amounts owed to parent undertakings	**3,927,559**	1,057,035
	4,573,739	1,090,984

The amount due to the parent undertaking is interest free, secured and is not due for repayment until the resources of the company permit.

	1999 £	1998 £
Included within the above are amounts falling due as follows:		
In 1-2 years:		
Finance lease and hire purchase obligations	**214,861**	10,720
In 2-5 years:		
Finance lease and hire purchase obligations	**431,319**	23,229

15 Provisions for liabilities and charges

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	1999 £	1998 £
Provided		
Capital allowances in excess of depreciation	**-**	-
Not provided		
Capital allowances in excess of depreciation	**588,911**	42,338
Other short term timing differences	**(338)**	-
	588,573	42,338

16 Called up share capital

	1999 £	1998 £
Authorised		
1,000 Ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	**1,000**	1,000

Notes *(continued)*

17 Reserves

	1999	1998
	£	£
Revaluation reserve		
At 31 July 1998	-	814
Transfer to profit and loss account	-	(814)
At 31 July 1999	-	-

18 Equity shareholders' funds

Reconciliation of movements on shareholders' funds

	1999	1998
	£	£
Profit for the year	**1,554,585**	147,666
Dividends	**(750,000)**	(140,000)
	804,585	7,666
Opening shareholders' funds	**141,800**	134,134
Closing shareholders' funds	**946,385**	141,800

19 Contingent liabilities

The company has provided cross guarantees to its bankers in respect of 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 period end this amounted to £5,230,358 *(1998: £2,230,804)*.

20 Other commitments

At 31 July 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 1999	Land and buildings 1998
	£	£
Operating leases which expire:		
Within one year	**23,000**	-
In more than 5 years	**1,096,433**	70,000
	1,219,433	70,000

Notes *(continued)*

21 Purchase of business

On 1 August 1998, the company purchased the trade and related net assets of other companies within the LA Leisure Group at net book values in consideration for a net intercompany payable of £757,363.

The net book value of assets and liabilities acquired of comprised:

	CS Leisure Plc	LA (Golders Green) Ltd	LA Westminster Ltd	Total
	£	£	£	£
Fixed assets	2,638,217	896,257	509,644	4,044,118
Current assets	764,702	176,609	230,920	1,172,231
Creditors: amounts falling due within one year	(651,151)	(538,039)	(209,059)	(1,398,249)
Creditors: amounts falling due after one year	(2,283,366)	(343,851)	(433,520)	(3,060,737)
	468,402	190,976	97,985	757,363
Satisfied by:				
Intercompany loan	468,402	190,976	97,985	757,363

On 31 January 1999, the company purchased some of the trade and related net assets of LA Hair & Beauty Limited at net book values through the intercompany account.

The net book value of assets and liabilities acquired of comprised:

	£
Fixed assets	105,016
Current assets	10,000
Creditors: amounts falling due within one year	(4,045)
	110,971
Satisfied by:	
Intercompany loan	110,971

22 Transactions with directors

During the year, rent of £70,000 *(1998:69,997)* was paid to Spiremill Limited, a company in which D Turner has an interest as both a director and a shareholder.

During the year rent totalling £4,000 *(1998:£6,000)* was paid to Speedwell Property and Mortgage Company Limited, a company in which D Turner has an interest as both a director and a shareholder.

Notes *(continued)*

23 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of LA Leisure Limited, which is the ultimate parent and controlling company incorporated in England

The largest group in which the results of the company are consolidated is that headed by LA Leisure Limited. The consolidated accounts are available to the public and may be obtained from 60 Commercial Road, London, E1 1LP.

24 Related party transactions

As the company is a wholly owned subsidiary of LA Leisure Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.