

FITNESS FIRST CLUBS LIMITED

Report and Financial Statements

31 October 2004



Deloitte & Touche LLP
Southampton

REPORT AND FINANCIAL STATEMENTS 2004

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Statement of total recognised gains and losses	5
Balance sheet	6
Cash flow statement	7
Notes to the accounts	8

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M W Balfour
T C Newman
S Ruzicka (resigned 8 October 2004)
C Ash (resigned 31 January 2005)
J E McGoldrick
T Keightley (appointed 8 October 2004, resigned 18 March 2005)
M Mitchell (appointed 8 October 2004)
M Leonard (appointed 8 October 2004)
N Taylor (appointed 8 October 2004)
G Flocks (appointed 3 November 2004)
P Boddy (appointed 11 October 2004)
M Metcalf (appointed 1 September 2004)
C Waggett (appointed 8 October 2004)

SECRETARY

S A Cadd

REGISTERED OFFICE

58 Fleets Lane
Poole
Dorset
BH15 3BT

BANKERS

National Westminster Bank
Bournemouth Business Centre
8 Christchurch Road
Bournemouth
BH1 3LX

SOLICITORS

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London
EC2A 2HA

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Southampton

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 October 2004.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of proprietor and operator of health and fitness clubs.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors are satisfied with the underlying results of the company and are confident that the underlying level of profits will be maintained and enhanced in the foreseeable future.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 5. The directors do not propose the payment of a dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are set out on page 1. None of the directors have any interest in the shares of the company at 31 October 2004. Messrs Balfour, McGoldrick, Metcalf, Waggett and Boddy are also directors of the ultimate parent company, Fitness First Holdings Ltd, and details of their shareholdings at 31 October 2004 are provided in that company's consolidated accounts.

The interests of other directors in the shares of Fitness First Holdings Ltd at 31 October 2004 are set out below:

Director	£1 "C" Ordinary Shares		£1 "C" Preference Shares		£1 "C" Ordinary Share Options		£1 "C" Preference Share Options	
	2004 Number	2003 or date of appointment if later Number	2004 Number	2003 or date of appointment if later Number	2004 Number	2003 or date of appointment if later Number	2004 Number	2003 or date of appointment if later Number
T C Newman	4,000	8,000	36,000	72,000	-	-	-	-
C Ash	2,500	2,500	22,500	22,500	-	-	-	-
T Keightley	500	500	4,500	4,500	-	-	-	-
M Leonard	800	800	7,200	7,200	-	-	-	-
M Mitchell	500	500	4,500	4,500	-	-	-	-
N Taylor	-	-	-	-	400	400	3,600	3,600

PAYMENT POLICY

The company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. Creditor days at 31 October 2004 were 26 (2003: 55).


EMPLOYMENT POLICIES

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination. Applications for employment by disabled persons are given full and fair consideration for suitable vacancies, having regard to their particular aptitudes and abilities. Where a person becomes disabled while in the company's employment a suitable position will be sought for that person.

AUDITORS

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


S A Cadd
 Secretary

30 March 2005

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 FITNESS FIRST CLUBS LIMITED

We have audited the financial statements of Fitness First Clubs Limited for the year ended 31 October 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes 1 to 23. 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 year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit 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 at 31 October 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton

31 March 2005

FITNESS FIRST CLUBS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 October 2004

		2004 £000	2003 £000 (Restated - note 1)
TURNOVER - continuing operations	2, 4	128,735	124,015
Cost of sales	1	(5,232)	(4,772)
Gross profit		123,503	119,243
Administrative expenses – exceptional items	4	(18,956)	(9,644)
Administrative expenses – other	1	(109,897)	(99,083)
Total administrative expenses		(128,853)	(108,727)
OPERATING (LOSS)/PROFIT - continuing operations	4	(5,350)	10,516
Profit on sale of fixed assets	4	8,412	439
Interest receivable and similar income		178	-
Interest payable and similar charges	5	(5,976)	(6,717)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,736)	4,238
Taxation	6	(312)	(289)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	15, 16	(3,048)	3,949

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 October 2004

	2004 £000	2003 £000
(Loss)/profit for the financial year	(3,048)	3,949
Goodwill previously written off to reserves disposed of on transfer of tangible fixed asset to fellow subsidiary	-	160
Total recognised gains and losses in the year	(3,048)	4,109

FITNESS FIRST CLUBS LIMITED

BALANCE SHEET 31 OCTOBER 2004

	Note	2004 £000	2003 £000
FIXED ASSETS			
Tangible assets	7	149,353	210,448
CURRENT ASSETS			
Stocks	8	1,243	2,198
Debtors	9	16,533	12,742
Cash at bank and in hand		703	248
		18,479	15,188
CREDITORS: amounts falling due within one year	10	(57,211)	(43,508)
NET CURRENT LIABILITIES		(38,732)	(28,320)
TOTAL ASSETS LESS CURRENT LIABILITIES		110,621	182,128
CREDITORS: amounts falling due after more than one year	11	(74,997)	(138,982)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	13	(10,007)	(14,481)
NET ASSETS		25,617	28,665
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Profit and loss account	15	25,617	28,665
TOTAL EQUITY SHAREHOLDERS' FUNDS	16	25,617	28,665

The financial statements were approved by the board of directors on 30 March 2005.



T C Newman
Director

CASH FLOW STATEMENT
Year ended 31 October 2004

	Note	2004 £000	2003 £000
Net cash inflow from operating activities	17	19,149	20,221
Returns on investments and servicing of finance	18	(5,798)	(6,717)
Taxation	18	3,421	(1,204)
Acquisitions	18	197	-
Capital expenditure	18	43,252	(24,010)
Net cash inflow/(outflow) before management of liquid resources and financing		60,221	(11,710)
Financing	18	(64,434)	11,973
(Decrease)/increase in cash in the year	19	(4,213)	263

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
Year ended 31 October 2004

	Note	2004 £000	2003 £000
(Decrease)/increase in cash in the financial year		(4,213)	263
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		64,434	(11,973)
Movement in debt in the financial year		60,221	(11,710)
Net debt at beginning of financial year		(142,290)	(130,580)
Net debt at end of financial year	19	(82,069)	(142,290)

NOTES TO THE ACCOUNTS
Year ended 31 October 2004

1. ACCOUNTING POLICIES

The principal accounting policies adopted are described below.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Reclassification

Commissions and bonuses, which in the previous year were classified in cost of sales, are now included in administrative expenses. Cost of sales for the comparative year ended 31 October 2003 have been restated by £4,728,000 to reflect this change in classification.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, except for land, based on cost less estimated residual value in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold and long leasehold buildings	2% per annum
Short leasehold buildings	over the term of the lease
Club fixtures	6.67% to 20% per annum
Fitness equipment	16.7% to 33.3% per annum
Office furniture, fittings and equipment	10% per annum
Computer equipment	33.3% per annum
Motor vehicles	25% per annum

The above categories include revisions to useful economic lives as explained further in note 4.

Club pre-opening costs

Costs incurred prior to the date of opening of a club which are not directly associated with its construction, refurbishment or fitting out are charged to the profit and loss account as incurred.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of each lease and depreciated over their estimated useful life. The finance charges are allocated over the period of the lease at a constant rate of charge on the balance of capital repayments outstanding.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the shorter of the lease term and the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

Stocks

Stocks are comprised of merchandise, bar stock, complimentary bar stock and video stock, and are valued at the lower of cost and net realisable value. Provision is made against obsolete and excess stock.

Pensions

Pension costs represent the amounts payable into personal pension schemes on behalf of certain Directors and employees. The amount charged to the profit and loss account is the contribution payable in the year.

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax, including UK Corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) based on the tax rates and laws applicable at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2. TURNOVER

The company derives its income principally from the sale of fitness club memberships and associated joining fees and administrative fees. Membership income is recognised on an accruals basis over the related membership period. Income relating to joining and administrative fees is recognised immediately on the basis that the related service has been performed. For new club openings, income is recognised from the date of opening of the club.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments	2004 £000	2003 £000
Remuneration for management services	512	228
Compensation for loss of office	320	106
Pension costs	26	2
	<u>858</u>	<u>336</u>

Highest paid director	2004 £000	2003 £000
Remuneration for management services	142	150
Compensation for loss of office	169	-
Pension costs	16	-
	<u>327</u>	<u>150</u>

Average number of persons (including directors) employed by the company in the year:	2004 No.	2003 No.
Office and management	244	210
Operations	4,158	3,792
	<u>4,402</u>	<u>4,002</u>

Staff costs (including directors) incurred during the year in respect of these employees were:	2004 £000	2003 £000
Wages and salaries	36,103	34,447
Social security costs	3,435	3,045
Other pension costs	104	58
	<u>39,642</u>	<u>37,550</u>

	2004	2003
	£000	£000
Operating (loss)/profit is stated after charging:		
Depreciation and other amounts written off tangible fixed assets		
Owned assets	14,311	11,621
Leased assets	1,925	1,804
Rentals under operating leases		
Plant and machinery	1,343	1,379
Other	13,172	9,814
Auditors' remuneration - audit fees	75	75
- other services	85	69
Management fee – Fitness First Limited	1,547	1,456
	2004	2003
	£000	£000
Exceptional items: Turnover		
Deferral of membership fees paid annually in advance	-	1,038
Exceptional items: Administrative expenses		
Fixed assets – impairment of specific clubs	16,065	4,612
Fixed assets – revision of economic lives	2,064	285
Fixed assets – other adjustments	-	1,377
Redundancy costs, and reorganisation costs	827	457
Other liabilities	-	2,913
	18,956	9,644
Exceptional item: Profit on sale of fixed assets	(8,412)	(439)
Total exceptional items	10,544	10,243

- Impairment of specific clubs has been determined after conducting a detailed review in accordance with the requirements of FRS 11.
- Revision of useful economic lives comprises changes to reduce the economic life of certain assets within the land and buildings' and club fixtures' categories in 2004 and certain assets within fitness equipment category in 2003 in order to be consistent with the useful economic lives adopted by the new holding company. The exceptional depreciation charge of £2,064,000 arising from this is computed as the difference between the charge for the year for the company's own accounts compared with the annual charge within the holding company's accounts for the same assets.
- Other adjustments to fixed assets include £nil (2003: £629,000) in respect of a major refurbishment programme, which commenced in 2002 and £nil (2003: £748,000) in respect of changes made to the basis of determining the costs of assets.
- Other liabilities include £nil (2003: £2,165,000) in respect of a pre-existing staff incentive scheme.

10

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£000	£000
Intercompany loan	5,876	6,525
Finance leases and hire purchase contracts	100	192
	<u>5,976</u>	<u>6,717</u>

6. TAXATION

	2004	2003
	£000	£000
Current taxation		
Adjustment in respect of prior years	(537)	-
Group relief	5,387	1,408
	<u>4,850</u>	<u>1,408</u>
Total current tax	4,850	1,408
Deferred tax		
Origination and reversal of timing differences	(4,804)	(1,119)
Adjustment in respect of prior years	266	-
	<u>312</u>	<u>289</u>

The current tax assessed for the year is higher (2003: lower) than that resulting from applying the standard 30% rate of corporation tax in the UK (2003: 30%) for the reasons set out in the following reconciliation:

	2004	2003
	£000	£000
(Loss)/profit on ordinary activities before taxation	<u>(2,736)</u>	<u>4,238</u>
Tax (credit)/charge at 30% thereon	(821)	1,272
Expenses not deductible for tax purposes	217	60
Depreciation on ineligible assets	4,170	1,805
Differences in tax and book basis on fixed asset disposals	827	(8)
Capital allowances claimed lower/(higher) than depreciation charged	994	1,058
Group relief for nil consideration	-	(2,779)
Prior period adjustments	<u>(537)</u>	<u>-</u>
Current tax charge	<u>4,850</u>	<u>1,408</u>

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

7. TANGIBLE FIXED ASSETS

	Land and buildings £000	Fitness equipment £000	Fixtures, fittings & equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 November 2003	207,850	33,339	9,481	3,967	13	254,650
Transfer from group companies	4,882	148	312	3,199	141	8,682
Additions	10,137	4,854	2,092	1,461	7	18,551
Disposals	(53,132)	(4,451)	(471)	(97)	-	(58,151)
At 31 October 2004	<u>169,737</u>	<u>33,890</u>	<u>11,414</u>	<u>8,530</u>	<u>161</u>	<u>223,732</u>
Accumulated depreciation						
At 1 November 2003	24,567	13,735	2,821	3,066	13	44,202
Transfer from group companies	116	67	182	1,307	56	1,728
Charge for the year	6,588	6,549	1,796	1,270	33	16,236
Exceptional charge (note 4)	890	-	1,174	-	-	2,064
Impairment charge (note 4)	15,768	-	297	-	-	16,065
Disposals	(2,395)	(3,066)	(418)	(37)	-	(5,916)
At 31 October 2004	<u>45,534</u>	<u>17,285</u>	<u>5,852</u>	<u>5,606</u>	<u>102</u>	<u>74,379</u>
Net book value						
At 31 October 2004	<u>124,203</u>	<u>16,605</u>	<u>5,562</u>	<u>2,924</u>	<u>59</u>	<u>149,353</u>
At 31 October 2003	<u>183,283</u>	<u>19,604</u>	<u>6,660</u>	<u>901</u>	<u>-</u>	<u>210,448</u>

The net book value of land and buildings comprises:

	2004 £000	2003 £000
Freehold	2,570	55,005
Long leasehold	8,759	20,323
Short leasehold	112,874	107,955
	<u>124,203</u>	<u>183,283</u>

Long leaseholds are those leaseholds with more than 50 years unexpired.

Included in the land and buildings are properties in the course of construction amounting to £481,000 (2003: £1,055,000).

The net book value of fixed assets includes £3,585,000 (2003: £4,986,000) in respect of assets held under finance leases and hire purchase contracts.

8. STOCKS

	2004 £000	2003 £000
Goods for resale	<u>1,243</u>	<u>2,198</u>

FITNESS FIRST CLUBS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 October 2004

9. DEBTORS

	2004 £000	2003 £000
Trade debtors	624	803
Amounts owed by group undertakings	5,959	4,625
Amounts owed by related undertakings	-	106
Corporation tax recoverable	-	2,440
Prepayments and accrued income	9,950	4,768
	<u>16,533</u>	<u>12,742</u>

All amounts are due within one year.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £000	2003 £000
Bank overdraft (note 12)	6,754	2,086
Obligations under finance leases and hire purchase contracts (note 12)	1,021	1,470
Trade creditors	6,365	9,828
Amounts owed to group undertakings	21,707	15,192
Corporation tax	490	-
Other creditors including taxation and social security	4,479	4,456
Accruals and deferred income	16,395	10,476
	<u>57,211</u>	<u>43,508</u>

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

	2004 £000	2003 £000
Obligations under finance leases and hire purchase contracts (note 12)	-	1,016
Amounts owed to group undertakings – intercompany loan (note 12)	74,997	137,966
	<u>74,997</u>	<u>138,982</u>

Repayment of amounts due to group undertakings will not be sought in the foreseeable future. Interest is charged at 1% above the base rate.

NOTES TO THE ACCOUNTS
Year ended 31 October 2004

12. BORROWINGS

	2004	2003
	£000	£000
Bank overdraft (secured – see below)	6,754	2,086
Obligations under finance leases and hire purchase contracts	1,021	2,486
Amounts owed to group undertakings – intercompany loan	74,997	137,966
	<u>82,772</u>	<u>142,538</u>
Due within one year	7,775	3,556
Due after more than one year	74,997	138,982
	<u>82,772</u>	<u>142,538</u>
Analysis of loan repayments:		
Bank loans and overdraft:		
Within one year or on demand	6,754	2,086
Obligations under finance leases and hire purchase contracts:		
Within one year or on demand	1,021	1,470
Between one and two years	-	1,016
Amounts owed to group companies – intercompany loan:		
After more than 5 years	74,997	137,966
	<u>82,772</u>	<u>142,538</u>

The Company, in conjunction with other sister companies, is a Guarantor of certain liabilities of a parent company in the United Kingdom, Moray Limited, under an Agreement for provision of bank credit facilities totalling £310m to Moray Limited and certain of that company's subsidiaries. As part of these guarantee arrangements, the Company has charged certain of its assets in favour of the Lenders under that credit Agreement (for which the Agent is Bank of Scotland, London). It is not anticipated that the Company will be called upon in respect of the guarantee provided.

The finance leases and hire purchase contracts are secured on the underlying assets concerned.

13. PROVISIONS FOR LIABILITIES AND CHARGES

	2004	
	£000	
Deferred taxation		
At 1 November 2003		14,481
Amount transferred from group company		64
Profit and loss account credit for the year (note 6)		(4,538)
As at 31 October 2004		<u>10,007</u>
	2004	2003
	£000	£000
Provided		
Capital allowances in excess of depreciation	10,007	14,373
Short term timing differences	-	108
	<u>10,007</u>	<u>14,481</u>

There is no unprovided deferred tax (2003: £nil).

FITNESS FIRST CLUBS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

14. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised		
100 Ordinary £1 shares	100	100
Called up, allotted and fully paid		
2 Ordinary £1 shares	2	2

15. PROFIT AND LOSS ACCOUNT

	2004 £000
At 1 November 2003	28,665
Retained loss for the year	(3,048)
At 31 October 2004	25,617

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £000	2003 £000
(Loss)/profit for the financial year	(3,048)	3,949
Goodwill previously written off to reserves disposed of on transfer of tangible fixed asset to fellow subsidiary	-	160
Net (reduction in)/addition to shareholders' funds	(3,048)	4,109
Opening shareholders' funds	28,665	24,556
Closing shareholders' funds	25,617	28,665

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

17. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	£000	£000
Operating (loss)/profit	(5,350)	10,516
Depreciation	16,236	13,425
Decrease/(increase) in stocks	962	(629)
(Increase) in debtors	(6,394)	(5,722)
(Decrease) in creditors	(4,984)	(7,594)
Exceptional items	18,679	10,225
	<hr/>	<hr/>
Net cash inflow from operating activities	19,149	20,221
	<hr/>	<hr/>

During the year certain assets and liabilities were transferred from other group companies. The effect of these non-cash transactions on the cash flow for the year was to increase stocks by £7,000 (2003: £22,000), increase debtors by £19,000 (2003: £981,000), reduce creditors by £7,067,000 (2003: £7,393,000) and increase tangible fixed assets by £6,954,000 (2003: £7,012,000).

18. ANALYSIS OF CASH FLOWS

	2004	2003
	£000	£000
Returns on investments and servicing of finance		
Interest received	178	-
Interest paid	(5,876)	(6,525)
Interest element of finance lease rental payments	(100)	(192)
	<hr/>	<hr/>
	(5,798)	(6,717)
	<hr/>	<hr/>
Taxation		
Corporation tax repaid/(paid)	3,421	(1,204)
	<hr/>	<hr/>
Capital expenditure		
Payments to acquire tangible fixed assets	(17,395)	(25,522)
Receipts from sales of tangible fixed assets	60,647	1,512
	<hr/>	<hr/>
	43,252	(24,010)
	<hr/>	<hr/>
Acquisitions		
Transfer of trade from group company	197	-
	<hr/>	<hr/>
Financing		
(Repayment of)/new intercompany loans	(62,969)	13,648
Capital element of finance lease rental payments	(1,465)	(1,675)
	<hr/>	<hr/>
	(64,434)	11,973
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FITNESS FIRST CLUBS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 October 2004

19. ANALYSIS OF NET DEBT

	At 1 Nov 2003 £000	Cash flow £000	Other Non cash changes £000	At 31 Oct 2004 £000
Cash at bank and in hand	248	455	-	703
Bank overdrafts	(2,086)	(4,668)	-	(6,754)
	<u>(1,838)</u>	<u>(4,213)</u>	<u>-</u>	<u>(6,051)</u>
Debt due after one year				
Intercompany loan	(137,966)	62,969	-	(74,997)
Finance leases and hire purchase contracts	(1,470)	1,465	(1,016)	(1,021)
Debt due within one year				
Finance leases and hire purchase contracts	(1,016)	-	1,016	-
Total net debt	<u>(142,290)</u>	<u>60,221</u>	<u>-</u>	<u>82,069</u>

20. CAPITAL COMMITMENTS

	2004 £000	2003 £000
Contracted for but not provided	<u>2,895</u>	<u>3,417</u>

21. OPERATING LEASE COMMITMENTS

At 31 October 2004 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2004 £000	Land and buildings 2003 £000	Other 2004 £000	Other 2003 £000
Leases which expire:				
Within one year	-	-	12	554
After five years	<u>17,189</u>	<u>10,726</u>	<u>-</u>	<u>-</u>
	<u>17,189</u>	<u>10,726</u>	<u>12</u>	<u>554</u>

22. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party at the year end, which heads the smallest and largest group for which consolidated accounts are produced, was Fitness First Holdings Ltd, a company incorporated in Great Britain, which is ultimately owned and controlled by funds managed by Cinven Limited which own shares representing 76% of the issued share capital. Copies of the accounts of Fitness First Holdings Ltd can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. The Company's immediate parent company is Fitness First Limited, which owns 100% of the issued share capital of the Company. Copies of the accounts of Fitness First Limited can also be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

FITNESS FIRST CLUBS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 October 2004

23. RELATED PARTY TRANSACTIONS

During the year the company recharged costs and services to the following fellow group companies:

Group company	2004 £000	2003 £000
Fitness First For Women Limited	840	142
Sparring Partners Limited	439	81
Nutravida Limited	-	1
Fitness First (Old Street) Limited	-	70
	<u>1,279</u>	<u>294</u>

At 31 October 2004 the company had the following balances outstanding due from/(to) the following group companies:

Group company	2004 £000	2003 £000
Fitness First For Women Limited	1,437	780
Sparring Partners Limited	520	81
Fitness First for Juniors	2	2
Curzons Management Associates Limited	3,723	3,723
Fitness First Limited	277	39
Amounts owed by group companies	<u>5,959</u>	<u>4,625</u>

Fitness First (Northampton) Limited	756	756
Fitness First Camberley Limited	632	632
Fitness First Birmingham Limited	622	622
Fitness First (Coventry) Limited	13	13
Kaizen Health Clubs Limited	3	2
Queens Park Club Limited	1,918	1,918
Fitness First Properties Limited	27	27
Curzons Management Associates Limited	3,692	3,692
Fitness First Limited	7,432	6,036
Fitness First (Old Street) Limited	1,321	-
Nutravida Limited	86	86
Moray Limited	5,201	1,408
Fitness Preferred Limited	4	-
Amounts owed by group companies within one year	<u>21,707</u>	<u>15,192</u>

Fitness First Limited	<u>74,997</u>	<u>137,966</u>
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Amounts owed by group companies due after more than one year	<u>74,997</u>	<u>137,966</u>
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