

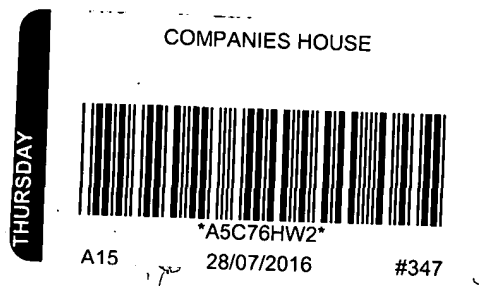
Company Registration No. 03207791



Fitness First Clubs Limited

Annual Report and Financial Statements for the year ended

31 October 2015



Fitness First Clubs Limited

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Fitness First Clubs Limited

OFFICERS AND PROFESSIONAL ADVISORS

For the year ended 31 October 2015

DIRECTORS

M Seibold
H Kay
N Tune
D Crawford
D Jones

SECRETARY

S Cadd

REGISTERED OFFICE

58 Fleets Lane
Poole
Dorset
BH15 3BT

BANKERS

HSBC Bank PLC
165 High St
Southampton
Hampshire
SO14 2NZ

SOLICITORS

Kirkland & Ellis
30 St Mary Axe
London
EC3A 8AF

INDEPENDENT AUDITOR

Ernst & Young LLP
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

Fitness First Clubs Limited

STRATEGIC REPORT

For the year ended 31 October 2015

Principal Activities

During the year the principal activity of Fitness First Clubs Limited was that of a health and fitness provider.

The Fitness First brand is internationally recognised and is regarded as one of the leading health and fitness club brands.

The Company operated 73 clubs with around 172,000 members at 31 October 2015.

We offer a full-service fitness club proposition to the upper mid-market of the fitness industry, including on-floor services, group exercise programs and personal training. We seek to provide our members with the best fitness experience and service in convenient locations while offering value to our members.

In addition to offering high quality equipment, personal training services and a broad array of group exercise programs, we strive to actively engage with our members to promote a motivating, high-energy, fun atmosphere and outstanding service in our clubs to help our members achieve their health and fitness goals.

Business Environment

The prevailing economic climate has a significant impact upon the fitness industry, with an influx of budget operators increasingly segmenting the market. Whilst the London market has been more resilient, this has resulted in more intensive competition creating a challenging trading environment for the business in certain UK locations outside of London. However, following the capital restructure in 2012 the completion of the closure programme for poorly performing clubs in 2013 and brand investments through 2013 and 2014, the Company is in a strong position to strengthen the brand further and capitalise on the positive macro trends in the health and fitness club market going forward.

Business Strategy

The Company's objectives are to increase revenues and profitability by enhancing and expanding our club network, attracting new members and increasing membership retention. The key elements of this strategy include:

Portfolio Strategy

We are focused on identifying potential new sites in and around major cities against rigorous criteria, which are based on the characteristics we have identified for successful clubs. This approach has enabled us to strengthen our position in London, creating a 'fortress' where we are able to use our city network to offer more fitness products and services to our members across complementary clubs than a competitor can offer from a single site. Our strong presence in London also increases the awareness of our brand for potential members, helping us to become the first choice if they decide to join a fitness club.

Based on the above, we intend to follow a disciplined strategy by only opening clubs where we find opportunities that meet our selection criteria and where expansion would be beneficial to our business and in line with our business strategies.

As well as strengthening our portfolio with the opening of new clubs in key selected locations, we will continue to review and rationalise our portfolio. This involves reviewing our poorer performing ('tail') clubs to identify operational solutions to improve their performance. We have improved performance by looking at such things as the cost structure of the club, the suitability of its product and service offerings to its local market and pricing options to ensure the club is competitive against the local competition. We will look to exit clubs in sub optimal locations, either by exercising lease breaks as they arise or by a sales process.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2015

Business Strategy (continued)

New Digital Products

An important part of our strategy is to develop our digital presence by creating digital products using our fitness knowledge and research into consumer attitudes. This will help us personalise a member's experience and enable us to use our leading brand to grow our presence in this area and reach new members. CustomFit, our mobile app, is an integrated training tool which allows users to create personalised workouts, set goals, access a library of exercises and video demonstrations and to track progress, across all devices. During the year we made great progress in this area, developing and rolling out CustomFit across the UK estate. Following on from this we have built and launched in early 2016 a public app which enables us to take CustomFit to non-members.

Systems and Insight Initiatives

We have undertaken studies and research into our membership base to understand attitudes and behaviours to enable us to segment our members into certain profiles. From this we have started to understand the different requirements of our members and the factors that make them visit our clubs and remain as members. This has enabled us to be more focussed in targeting non-members for whom our product is attractive, and develop bespoke tools and techniques to retain existing members. We have looked at other hospitality/leisure companies to see how they interact with their customers to improve their experience and the service offering. We believe that we are at the forefront of incorporating this into the fitness industry and it is helping us to improve our members' experience by giving them what they want and value and as a result improve the profitability of our membership base.

We are developing our website to enable new members to more easily join online and for all members to manage their membership online. As part of the improvement to our technology platform we are also implementing a new sales system and improving our CRM capability. This will help us to attract new members and then ensure our offerings are geared to their expectations to help us retain them as members for longer.

Prioritisation of Initiatives

We have agreed specific initiatives which will address areas of particular focus, including increasing membership growth, reducing the cost of member acquisition and the cost of serving our members. This has included looking at how we can simplify and automate our processes, challenging how our club headcounts can better serve our members.

Monetisation

Having received strong backing from our owners since their takeover in September 2012, we recognise the need for them to realise a return on their investment. As a result of this, we have begun considering options for finding a new owner for the UK business. Advisors have been appointed in January 2016 to help us identify the most effective way of undertaking this strategy. We have begun the marketing of the UK business to identify potential buyers and assess their level of interest.

Principal Risks and Uncertainties

The business management and execution of the Company's strategy are subject to a number of potential risks and uncertainties. These could have a material impact on the Company's operating performance and could cause future financial results to differ materially from expected and historical results. The key area of risk to the business is membership decline. This could be driven by failure to successfully implement business strategies, the inability to attract and retain the right people to deliver the service our members expect, competition, and macro-economic factors including consumer confidence.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2015

Principal Risks and Uncertainties (continued)

The Directors have implemented systems to identify and assess these risks and to ensure that reasonable mitigation and action plans are in place. In particular, the following activities are examples of ways in which the directors have attempted to mitigate this key risk to the business:

- Investment in the brand to differentiate Fitness First from other operators;
- New training and development programme to enable staff to provide a standardised approach enhancing member motivation and retention;
- New digital innovations are being developed, with the aim to differentiate and secure the brand's significance to target markets;
- Maintenance of competitiveness through appropriate price architecture;
- Piloting new concepts to stay at the forefront of industry developments and provide innovative new products for our members.

The Company uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks arising from the financial assets and liabilities of the Company are liquidity risk and credit risk. Details of financial instruments and how management mitigate these risks are provided in note 22.

Business review and performance for the year

	2015	2014
Revenue	£75.4m	£76.3m
Revenue Growth	-1.2%	-10.3%
Operating Loss	£(6.6m)	£(13.2m)
Adjusted EBITDA	£10.2m	£8.6m
No. of clubs ¹	73	76
Membership ¹	0.172m	0.177m

¹ Number of clubs and Membership as at end of period

Reconciliation to adjusted EBITDA

	2015 £'000	2014 £'000
Operating Loss	(6,624)	(13,187)
Depreciation	10,262	9,484
Amortisation	165	80
Impairment of property, plant and equipment	2,359	1,762
Impairment reversal of property, plant and equipment	(1,780)	-
Impairment of intangible assets	1,552	-
Loss on disposal of fixed assets	724	2,810
Releases and other one off operating charges	221	(545)
Club closure costs and other one off operating charges	404	977
Management fees and royalties	<u>2,879</u>	<u>7,219</u>
Adjusted EBITDA	10,161	8,600

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2015

Business review and performance for the year (continued)

As set out in the statement of comprehensive income, the Company reported a 1.2% reduction in revenue (2014: 10.3%), due to club closures in 2014 and 2015.

The decline in revenue was offset by decreased operating costs, due to a reduction in loss on disposal and club closure costs as the refurbishment and portfolio rationalisation respectively have neared completion, plus a reduction in the number of clubs, to deliver a reduced operating loss of £6.6m in 2015 (2014: £13.2m). Adjusted EBITDA is £10.2m in 2015 (2014: £8.6m).

The Company reversed the membership decline of recent years to give a 1.0% increase in like for like closing membership evidencing a turnaround during the year on the back of investment made.

Employees

Our staff are fundamental to delivering our promise to members and we have a set of values that define how we behave. We know and live by our values throughout the company, and these values form part of our employee recruitment, induction and training, and ongoing performance appraisal and rewards systems.

During the period under review, the Company employed 826 employees. We recognise that our staff are critical to achieving our strategy and we understand how important our people are to our long term success. We consistently seek to recruit and retain the best employees in our local markets in order to provide the service that is the foundation of our success. We have a training and certification program for our staff and believe that this program promotes staff retention, motivation and productivity, as well as an improved member experience.

When last assessed in 2014 we achieved a 2 star employee engagement Accreditation rating. This was awarded by Best Companies, the specialist Employee engagement experts who also conduct the Sunday Times Top 100 Employers programme. We have invested significant time and resource in the recruitment and development of our people, especially those at the frontline of our business, supporting our members. This accreditation reflects the strong engagement of our people in our business and their commitment to our purpose. Having great people who are focussed on our members and helping them go further is fundamental to our success.

Information regarding the Company is circulated via staff newsletters, visits by management and email. Regular meetings are held with employees to discuss operational and financial performance of the business, as well as the holding of forums and conferences to bring together wider teams and functional specialists, for example in fitness, marketing or property.

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. Where a person becomes disabled while in the Company's employment, a suitable alternative position will be sought for that person.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 October 2015

Environment

An important part of our social responsibility is our commitment to being environmentally friendly within the business.

As a result of the Company providing a service driven product our impact on the environment is considered to be low. Nonetheless the Company aims to minimise its environmental impact, and to comply with all applicable environmental legislation, to prevent pollution and to minimise environmental damage occurring as a result of its activities.

A key focus for the Company in operating health and fitness clubs is in minimising energy consumption. This has an environmental benefit as well as minimising costs for the business. Where it is practically possible to do so we monitor and manage levels of energy consumption in our clubs.

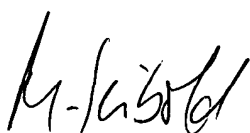
Health and Safety

The Company recognises and accepts its responsibilities for the health and safety of its employees, members and members of the public. The Company aims to ensure that the tasks it carries out achieve and maintain the highest standards of health and safety for all employees and persons liable to be affected by them or their actions.

The Company, through management at all levels, has a responsibility to ensure so far as is reasonably practicable, the health, safety and prevention of injuries to all employees whilst at work and to visitors to the premises. Employees are reminded that they have a legal responsibility to take reasonable care for the health and safety of themselves and others by adopting the safe working practices given to them via written or verbal communication, such that they do not put themselves, fellow employees or members at risk.

With a view to promoting good practices covering health and safety at work, Fitness First requires the co-operation and encourages the involvement of all members of the organisation.

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



M Seibold
Director
7 April 2016

DIRECTORS' REPORT

For the year ended 31 October 2015

The Directors present their annual report and the audited financial statements for the year ended 31 October 2015. No dividends were proposed or declared (2014: £nil).

Directors

The directors who are serving at date of signing the accounts are set out on page 1. S Lawler Hall resigned on 31 October 2015.

Subsequent Events

Having received strong backing from our owners since their takeover in September 2012, we recognise the need for them to realise a return on their investment. As a result of this, we have begun considering options for finding a new owner of the UK business. Advisors have been appointed in January 2016 to help us identify the most effective way of undertaking this strategy. We have begun the marketing of the UK business to identify potential buyers and assess their level of interest.

Also subsequent to year end the Company has ceased trading at 7 clubs and one office building as part of a continued portfolio rationalisation programme.

In addition, the Company has settled a property claim in its favour and has received £0.9m in compensation towards costs related to an onerous lease. As at 31 October 2015 the outcome of the claim was not known and therefore an asset has not been recognised at that date.

Going Concern

The Directors have considered the Company's cash flow and future estimates and projections taking into account possible fluctuations arising from the principal risks and uncertainties and other factors, and in particular the current and expected net liability position, liquidity and funding position of the Company and the ability to settle its creditors as they fall due. In addition, a Group company, Fitness First Limited has confirmed it will provide continuing support for a period of at least 12 months from the date of signing the financial statements:

Whilst external risks such as increased competition are real, the underlying business at adjusted EBITDA level remains profitable despite the current climate.

After making enquiries, and in consideration of the foregoing as well as the Company's cash position and the support from its parent company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have also satisfied themselves that Fitness First Finance Limited will be able to provide such support as required. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' Indemnity

The Company has granted indemnity to its directors against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the Directors' report.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 October 2015

Social and community issues

We aim to participate in and support the local communities in which we operate. Our employees at our clubs are engaged with the community on a day to day basis and we are involved in charitable events during the year.

The directors believe that fitness is a growing industry and that people and governments across the world are recognising the need for living a healthy lifestyle and the benefit that improved levels of fitness can bring. Increased levels of obesity and an ageing world population highlights this more than ever.

Contractual arrangements

Revenue is predominantly generated from our membership base. Each individual has their own membership agreement setting out agreed terms. In terms of costs, we enter into key supplier contracts at both a local and international level. An authorisation process is in place to ensure all new/updated contracts are appropriately reviewed, challenged and signed-off prior to commitment. In both areas of membership agreements and supplier contracts the business seeks to ensure clarity and a mutually rewarding relationship.

Other disclosures

The following items are disclosed in the Strategic Report:

- Future developments in the business of the Company (Business Strategy section)
- Information on employee policies

Information on policies related to financial instruments is disclosed in note 22.

Auditor

In the case of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office.

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



M Seibold
Director
7 April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 October 2015

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FITNESS FIRST CLUBS LIMITED

For the year ended 31 October 2015

We have audited the financial statements of Fitness First Clubs Limited for the year ended 31 October 2015 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 10 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our audit opinion.

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company as at 31 October 2015 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the provisions of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.


**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FITNESS FIRST CLUBS LIMITED
(CONTINUED)**

For the year ended 31 October 2015

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

A handwritten signature in black ink, reading "Ernst & Young LLP".

Geraint Davies (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton, United Kingdom
8 April 2016

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2015

	Note	2015 £'000	2014 £'000
Revenue	4	75,435	76,322
Cost of sales		(1,399)	(1,818)
Gross profit		<u>74,036</u>	<u>74,504</u>
Operating costs		(80,660)	(87,691)
Operating loss	5	<u>(6,624)</u>	<u>(13,187)</u>
Finance income	7	2	-
Finance costs	7	(53)	(112)
Loss before tax		<u>(6,675)</u>	<u>(13,299)</u>
Tax charge	8	-	-
Loss for the year		<u>(6,675)</u>	<u>(13,299)</u>

All losses arise from continuing operations in 2015 and 2014.

There is no other comprehensive income / (loss) in 2015 (2014: £nil).

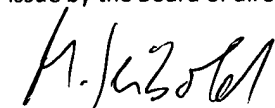
Fitness First Clubs Limited

STATEMENT OF FINANCIAL POSITION

As at 31 October 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Intangible assets	9	10,380	12,097
Property, plant and equipment	10	62,323	66,343
Trade and other receivables	12	430	675
		<u>73,133</u>	<u>79,115</u>
Current assets			
Inventories	11	141	191
Trade and other receivables	12	7,458	6,596
Cash and cash equivalents		341	-
		<u>7,940</u>	<u>6,787</u>
Assets classified as held for sale	10	654	-
Total Assets		<u>81,727</u>	<u>85,902</u>
Current liabilities			
Trade and other payables	13	15,810	20,798
Borrowings and other financial instruments	14	12,889	6,246
Provisions	17	609	577
		<u>29,308</u>	<u>27,621</u>
Non-current liabilities			
Trade and other payables	13	8,727	9,633
Borrowings and other financial liabilities	14	148,878	147,122
Provisions	17	1,909	1,946
		<u>159,514</u>	<u>158,701</u>
Total liabilities		<u>188,822</u>	<u>186,322</u>
Net liabilities		<u>(107,095)</u>	<u>(100,420)</u>
Equity			
Share Capital	18	-	-
Accumulated Deficit		(107,095)	(100,420)
Total Deficit		<u>(107,095)</u>	<u>(100,420)</u>

The financial statements of Fitness First Clubs Limited, registered number 03207791, were approved and authorised for issue by the Board of directors on 7 April 2016.



M Seibold
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 October 2015

	Share Capital £'000	Accumulated deficit £'000	Total £'000
As at 31 October 2013	-	(87,121)	(87,121)
Total Comprehensive loss for the year	-	(13,299)	(13,299)
As at 31 October 2014	<u>-</u>	<u>(100,420)</u>	<u>(100,420)</u>
Total Comprehensive loss for the year	-	(6,675)	(6,675)
As at 31 October 2015	<u>-</u>	<u>(107,095)</u>	<u>(107,095)</u>

STATEMENT OF CASH FLOWS

For the year ended 31 October 2015

	Note	2015 £'000	2014 £'000
Cash generated / (used in) from operating activities			
Cash generated from operations	19	4,428	(2,024)
Net cash inflow / (outflow) from operating activities		<u>4,428</u>	<u>(2,024)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		843	1,163
Purchase of property, plant and equipment		(13,331)	(20,856)
Net cash used in investing activities		<u>(12,488)</u>	<u>(19,693)</u>
Cash flows from financing activities			
Drawdown on related party loan		9,113	20,030
Interest paid		-	(5)
Interest received		2	-
Net cash used in financing activities		<u>9,115</u>	<u>20,025</u>
Net increase / (decrease) in cash and cash equivalents		1,055	(1,692)
Opening cash and cash equivalents		(714)	978
Closing cash and cash equivalents		<u>341</u>	<u>(714)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2015

1. CORPORATE INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

Fitness First Clubs Limited (the "Company") is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom ("UK").

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees) as adopted for use in the European Union ("EU") and the Companies Act 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Going Concern

The Directors have considered the Company's cash flow and future estimates and projections taking into account possible fluctuations arising from the principal risks and uncertainties and other factors, and in particular the current and expected net liability position, liquidity and funding position of the Company and the ability to settle its creditors as they fall due. In addition, a Group company, Fitness First Limited has confirmed it will provide continuing support for a period of at least 12 months from the date of signing the financial statements.

Whilst external risks such as increased competition are real, the underlying business at adjusted EBITDA level remains profitable despite the current climate.

After making enquiries, and in consideration of the foregoing as well as the Company's cash position and the support from its parent company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have also satisfied themselves that Fitness First Finance Limited will be able to provide such support as required. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Foreign currencies

The financial statements are presented in pounds sterling which is the currency of the country in which the Company was incorporated.

Transactions in foreign currencies are initially recorded in each entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Foreign currency differences arising on retranslation are recognised in profit or loss within the Statement of other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Revenue

The Company derives its income principally from the sale of fitness club memberships and associated joining and administration fees, with secondary income from the sale of related food, drink, energy and personal training products. Membership income from individuals is recognised over the membership term. Corporate membership income is recognised on an accruals basis over the related membership period. Income relating to joining and administration fees is recognised immediately on the basis that the related service has been performed. Sales of goods are recognised when goods are delivered and title has passed. Revenue is recognised net of value added tax.

For new club openings, the Company sells memberships and collects joining and administration fees in the period before the club is opened. Income received in advance of the club opening is deferred until the club is open. Joining and administration fees received in advance are recognised at the date of the club opening and membership income received in advance is deferred until the club is open and then recognised on an accruals basis over the related membership period.

Cash and Cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents defined above net of outstanding bank overdrafts.

Intangible assets

(a) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company identifies CGUs to be at club level. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

(b) Computer software

Costs to acquire computer software licences and bring them into use by the Company are capitalised and amortised over their estimated useful lives (3 to 10 years).

(c) Internally-generated intangible assets

Information technology development costs which can be measured reliably are recognised to the extent that an identifiable asset is created which will generate future economic benefits for the Company. Internally-generated assets are amortised on a straight-line basis over their useful lives (3 to 10 years). Where no internally-generated asset can be recognised, information technology development costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is charged on all assets, except for freehold 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:

Land and buildings	20% per annum over the term of the lease
Furniture, fittings and equipment	20% per annum
Fitness equipment	10% to 33.3% per annum
Computer equipment	10% to 33.3% per annum
Motor vehicles	25% per annum

The appropriateness of depreciation rates is reviewed on an annual basis. Any change in the estimated useful life, or residual value, is adjusted through the depreciation rates on a prospective basis.

Assets classified as held for sale

A non-current asset is classified as held for sale only if available for immediate sale in their present condition; a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

Impairment of property, plant and equipment and intangible assets, excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Impairment of property, plant and equipment and intangible assets, excluding goodwill (continued)

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss within the Statement of Comprehensive Income for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss within the Statement of Comprehensive Income.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are treated as owned assets and a corresponding liability to the lessor is held on the balance sheet. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss within the Statement of Comprehensive Income for the year.

The costs of operating lease payments are charged against profit or loss within the Statement of Comprehensive Income on a straight-line basis over the expected lease term.

The expected lease term of property leases is calculated on a lease by lease basis. In most cases this period corresponds to the basic lease term.

Future minimum guaranteed rent increases and lease incentives, such as rent free periods and landlord contributions, are recognised straight-line over the expected lease term, with the corresponding balance held in liabilities.

The impact of recognising property lease costs on a straight-line basis is a higher accounting rent charge compared to the cash charge in the first half of the lease term. This trend reverses over the second half of the lease term.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present, legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect is material, the obligation is discounted to present value using a pre-tax rate that reflects current market assessments of the time value of money. A risk free rate is used as cash flows are already adjusted for risk. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

Onerous contract provisions

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract; usually where it no longer operates a club on a site and the site is vacant or sublet. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

Restoration provisions

Provision is made for costs of restoration to reinstate lease sites to their original condition at the end of the lease term where there is a contractual or constructive obligation and it is probable that the costs will be incurred. Costs of restoration are recognised as additions to property, plant and equipment incurred in fitting out the site at the inception of the lease and provision is made for the liability that is expected to arise. The additions are depreciated over the period of the lease term.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables, and unquoted financial instruments. During the year and at year-end, the Company has only designated financial assets as loans and receivables.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised through profit or loss for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. During the year and at year-end, the Company has only designated financial liabilities as loans and borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Inventories

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

Cost comprises direct materials and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in first out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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 or loss for the year as incurred.

Pensions

Pension costs represent the amounts payable into personal pension schemes on behalf of certain Directors and employees, together with amounts payable under defined contribution schemes for certain employees of the Company's subsidiary undertakings.

Tax

The tax expense represents the sum of the corporation tax currently payable and deferred tax.

Corporation tax payable is based on taxable profit for the year using current tax rates that have been enacted or substantively enacted.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised if it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profits.

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date. Deferred tax is charged or credited through profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in accounting policies and disclosures

The following revised standards and interpretations became effective in the current year and have been adopted where applicable in these financial statements. Their adoption has not had any significant impact on the amounts reported but may impact the accounting for future transactions and arrangements:

Amendments to IAS 32 Offsetting financial assets and financial liabilities

Amendments to IAS 36 Recoverable amount disclosures for non-financial assets

The amendments to IAS 32 have not changed the model but have clarified the offsetting criteria. This has not impacted the Group's financial position or performance.

Amendments to IAS 36 have impacted the disclosure requirements regarding measurement of the recoverable amount of impaired assets. This has not impacted the Company.

Standards and interpretations issued but not yet applied

The IASB has issued standards and interpretations, which are relevant to the Company's operations and have an effective date that does not require application in these financial statements. These are listed below;

Effective for annual periods beginning on or after 1 January 2016:

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

Disclosure Initiative (Amendments to IAS 1)

Effective for annual periods beginning on or after 1 January 2018:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

IFRS 16 Leases

Management is currently assessing the impact on the Company on the releases and amendments noted above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions in the process of applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only effects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Impairment of intangible assets and property, plant and equipment

The carrying amounts of the Company's assets are reviewed annually to determine whether there is any indication of impairment, based on a value in use calculation.

The recoverable amounts of property, plant and equipment and goodwill are determined based on value in use calculations. The recoverable amounts are then compared to the carrying values of the assets. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Where an impairment subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in note 9.

(b) Provision for onerous property lease contracts

The Company makes provision against the cost of certain property lease contracts where it no longer operates a club on the site and the site is either vacant or sublet.

The value of the provision is determined based on the expected unavoidable future costs of the contract and the expected period during which these costs will continue to be incurred. Management estimates the expected period during which these costs will be incurred on a lease by lease basis, based on the current contract status, historical experience of resolving similar contracts, and knowledge of the local rental markets.

(c) Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. In evaluating our ability to recover our deferred tax assets, we consider projected future taxable income and recent financial operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Deferred tax (continued)

In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future pre-tax operating income, the reversal of taxable temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgement about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. If our assumptions change, any tax benefits or expense relating from a change in recognition of deferred tax assets will be accounted for through profit or loss, equity, or other comprehensive income through which the related deferred tax asset originated.

(d) Useful economic lives

The useful economic lives, as mentioned in current accounting policy in note 2, are assessed on annual basis based on latest available information. Management believe that the useful economic lives being used currently are still appropriate. Current year's depreciation and amortisation charge is shown in note 5.

(e) Operating lease commitments

The Company has entered into commercial property leases as a lessee. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it obtains all the significant risks and rewards of ownership of these properties. All property leases are accounted for as operating leases on this basis. Evaluation includes considerations such as whether the lease term constitutes a substantial portion of the economic life of the commercial property. Refer to note 5 for rentals charged under operating leases.

The expected lease term of property leases is calculated on a lease by lease basis. In most cases this period corresponds to the basic lease term. Where the basic lease term is short and the Company believes with reasonable certainty that it will operate the lease beyond the basic lease term, this period includes lease extension periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

4. REVENUE

	2015	2014
	£'000	£'000
Revenue		
Sales of goods	2,585	2,951
Membership revenue	64,500	65,345
Other revenue	8,350	8,026
	<u>75,435</u>	<u>76,322</u>

5. OPERATING LOSS

	2015	2014
	£'000	£'000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment	10,262	9,484
Amortisation of software assets	165	80
Impairment of property, plant and equipment	2,359	1,762
Impairment reversal of property, plant and equipment	(1,780)	-
Impairment of intangible assets	1,552	-
Loss on disposal	724	2,810
Releases and other one off operating credits	221	(545)
Rentals under operating leases:		
Land and buildings	11,472	10,679
Other operating leases	7	20
Staff costs (see note 6)	22,562	23,170
Club closure costs and other one off operating charges	404	977
Management fees and royalties	2,879	7,219
Auditor's remuneration	416	75

	2015	2014
	£'000	£'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the annual accounts	66	66
Total audit fees	<u>66</u>	<u>66</u>
Corporate finance services	350	9
Total non-audit fees	<u>350</u>	<u>9</u>
Total remuneration	<u>416</u>	<u>75</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Average number of persons (including Directors) employed by the Company in the year:	2015 No.	2014 No.
Office and management	174	206
Operations staff	652	891
	<u>826</u>	<u>1,097</u>

Staff costs (including Directors) incurred during the year in respect of these employees were:	2015 £'000	2014 £'000
Wages and salaries	20,543	21,095
Social security costs	1,630	1,684
Other pension costs	389	391
	<u>22,562</u>	<u>23,170</u>

Directors' emoluments	2015 £'000	2014 £'000
Wages and salaries	1,169	1,493
Pension costs	95	76
Sums paid to third parties in respect of directors' services	23	-
	<u>1,287</u>	<u>1,569</u>

Highest paid Director	2015 £'000	2014 £'000
Wages and salaries	334	436
Pension costs	41	23
Sum paid to third parties in respect of director's services	3	-
	<u>378</u>	<u>459</u>

Number of Directors who:		
Are members of a money purchase pension scheme	6	6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

7. NET FINANCE COSTS

	2015	2014
	£'000	£'000
Finance costs consist of:		
Interest expense		
Bank interest expense	-	5
Total interest expense	-	5
Other finance costs		
Foreign exchange gain	(2)	(1)
Unwinding of discount on provisions	55	108
Total other finance costs	53	107
Total finance costs	53	112
Total finance income	2	-
Net finance costs	51	112

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2015	2014
	£'000	£'000
Current tax		
UK corporation tax charge for the year	-	-
Adjustments in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior years	-	-
Benefit from previously unrecognised loss or temporary difference	-	-
Total deferred tax	-	-
Tax charge attributable to continuing operations	-	-

UK corporation tax is calculated at 20.4% (2014: 21.8%) of the estimated taxable profit for the year.

The 2015 Finance Bill enacted a reduction of the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. For the year ended 31 October 2015, as the reduction to 18% has been substantively enacted, deferred tax is calculated at 18%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

8. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

The charge for the year can be reconciled to the loss for the year as follows:

	2015 £'000	2014 £'000
Accounting loss before income tax	(6,675)	(13,299)
Tax credit calculated at UK standard rate of corporation tax	(1,362)	(2,903)
%	20.4%	21.8%
Expenses not deductible for tax purposes	1,010	894
Tax losses surrendered by parent for nil consideration	(1,394)	(220)
Change in unrecognised deferred tax assets	1,746	2,229
Tax charge	<u>-</u>	<u>-</u>
Effective tax rate %	0%	0%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

9. INTANGIBLE ASSETS

	Goodwill £'000	Software assets £'000	Total £'000
Cost			
At 1 November 2013	12,777	889	13,666
Disposals	(188)	(71)	(259)
At 31 October 2014	12,589	818	13,407
 Disposals	 -	 -	 -
At 31 October 2015	12,589	818	13,407
 Accumulated amortisation and impairment			
At 1 November 2013	944	545	1,489
Amortisation charge for the year	-	80	80
Disposals	(188)	(71)	(259)
At 31 October 2014	756	554	1,310
 Amortisation charge for the year	-	165	165
Impairment charge for the year	1,552	-	1,552
At 31 October 2015	2,308	719	3,027
 Net book value			
Total at 31 October 2015	10,281	99	10,380
 Total at 31 October 2014	11,833	264	12,097

Goodwill

Goodwill arose as a result of acquiring the trade, assets and liabilities from Fitness First for Women Limited and Mike Corby Holdings Limited effective 1 November 2007. Goodwill was allocated to the cash generating units (CGUs) which are the clubs that were expected to benefit from the acquisition. The carrying value of the goodwill is as follows:

	2015 £'000	2014 £'000
Mike Corby	10,281	11,833
	<u>10,281</u>	<u>11,833</u>

The Company tests goodwill annually for impairment and impairment charge of £1.5m (2014: £nil) was booked during the year in relation to one club with an approaching lease end date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

9. INTANGIBLE ASSETS (CONTINUED)

The recoverable amounts of the CGUs are determined from value in use calculations. The value in use calculations are subject to a number of key assumptions, being the discount rates, growth rates and expected changes to selling prices and direct costs. The determination of these assumptions requires significant judgement and reflects, amongst other things, the Company's cost of capital and management's perspectives relating to the economic environment, the time value of money and risks specific to the CGUs. The Company's cash flow projections are based on industry forecasts and make assumptions regarding the Company's future performance, particularly regarding the Company's ability to attract new members and to retain existing members, and that there is no significant change to the economic, political, legal or social environment in which the Company operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Company prepares cash flow forecasts using the most recent financial budgets approved by management for the next three years and extrapolates on a perpetuity basis using an estimated long term growth rate of 1.5% (2014: 1.5%). This rate does not exceed the average long term growth rate for the UK. Discount rates are based on the Group's weighted average cost of capital adjusted to reflect management's assessment of specific risks related to the UK. The discount rate used in 2015 was 10.3% (2014: 11.2%).

No impairments were recognised against other intangible assets during 2015 (2014: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 October 2015

10. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £'000	Fitness Equipment £'000	Furniture, Fittings & Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost						
At 31 October 2013	120,687	18,817	9,509	2,235	6	151,254
Transfers	19	5	(28)	(2)	3	(3)
Reclassifications	(680)	-	2	1	(1)	(678)
Additions	13,448	2,426	1,557	49	-	17,480
Disposals	(17,570)	(7,009)	(1,523)	(89)	-	(26,191)
At 31 October 2014	115,904	14,239	9,517	2,194	8	141,862
Transfers to assets held for sale	(11,900)	(1,377)	(839)	(22)	-	(14,138)
Additions	5,817	2,237	437	551	-	9,042
Disposals	(8,281)	(1,824)	(1,844)	(375)	-	(12,324)
At 31 October 2015	101,540	13,275	7,271	2,348	8	124,442
Accumulated depreciation and impairment						
At 31 October 2013	67,715	11,437	6,822	1,189	5	87,168
Transfers	4	-	(3)	-	-	1
Reclassifications	(1,011)	1	333	(1)	-	678
Depreciation charge for the year	6,316	2,015	694	457	2	9,484
Impairment charge for the year	1,633	72	57	-	-	1,762
Disposals	(14,849)	(5,886)	(1,416)	(66)	(1)	(22,218)
At 31 October 2014	59,808	7,639	6,487	1,579	6	75,519
Transfers to assets held for sale	(11,424)	(1,228)	(811)	(21)	-	(13,484)
Depreciation charge for the year	6,924	2,135	840	362	1	10,262
Impairment charge for the year	2,163	64	123	9	-	2,359
Impairment reversal for the year	(1,780)	-	-	-	-	(1,780)
Disposals	(6,951)	(1,702)	(1,789)	(315)	-	(10,757)
At 31 October 2015	48,740	6,908	4,850	1,614	7	62,119
Total at 31 October 2015	52,800	6,367	2,421	734	1	62,323
Total at 31 October 2014	56,096	6,600	3,030	615	2	66,343

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets held for sale

Assets held for sale with a net book value of £654k as at 31 October 2015 (2014: £nil) relate to ten underperforming or marginal clubs and one office building no longer required which are available for immediate sale as part of a portfolio rationalisation exercise. Fitness First has sought to transfer the club businesses as a going concern either via a lease assignment or sub-let. The assets were deemed highly probable to transfer within six months of the balance sheet date.

The impairment charge as a result of measuring these assets held for sale at fair value was £1.7m which forms part of total impairment charge of £2.4m included in operating costs (see below for further details). The basis for determining fair value was the expected proceeds from the sale based on firm offers received less expected costs to sell. The related tax impact is to increase the unprovided deferred tax asset.

Impairment of PP&E

The Company reviewed the carrying value of assets for individual clubs against predicted future performance for all operational clubs, and fair value less costs to sell for all underperforming clubs resulting in total impairments of £2.4m (2014: £1.8m). Refer to note 9 for the methodology used for impairment testing.

Also included in operating costs is the reversal of £1.8m of previous impairment losses relating to Land and Buildings assets. The reversals relate to five clubs in the UK where the performance has improved such that their value in use has increased. The performance improvements arose in most cases following a period of capital investment in the clubs that allowed them to generate additional revenue. The reversals are not considered material to any individual club cash generating unit. The discount rate used in estimating value in use was 10.3% (2014: 11.2%).

The entire net book value of land and buildings comprises short leasehold property.

Included in land and buildings are properties in the course of construction amounting to £nil (2014: £1,031k). No amounts in relation to borrowing costs have been capitalised in the current or prior periods.

11. INVENTORIES

	2015 £'000	2014 £'000
Goods for resale or hire	<u>141</u>	<u>191</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

12. TRADE AND OTHER RECEIVABLES

	2015 £'000	2014 £'000
Current:		
Trade receivables	973	663
Allowance for doubtful debts	(33)	(50)
	<u>940</u>	<u>613</u>
Other receivables	1,601	692
Capital receivables	296	287
Prepayments and accrued income	<u>4,621</u>	<u>5,004</u>
	<u>7,458</u>	<u>6,596</u>
Non-current:		
Other receivables	<u>430</u>	<u>675</u>
Total	<u>7,888</u>	<u>7,271</u>

Further detail on the ageing of receivables and credit risk is provided in note 22. The comparative non-current other receivables of £675k was previously presented within current assets in the prior year statement of financial position.

13. TRADE AND OTHER PAYABLES

	2015 £'000	2014 £'000
Current:		
Trade payables	4,277	5,465
Capital payables and accruals	1,349	5,637
Other tax and social security	1,547	603
Other payables	1,397	1,459
Accruals and deferred income	<u>7,240</u>	<u>7,634</u>
	<u>15,810</u>	<u>20,798</u>
Non-current:		
Other payables	<u>8,727</u>	<u>9,633</u>
Total	<u>24,537</u>	<u>30,431</u>

14. BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2015 £'000	2014 £'000
Current		
Bank overdrafts	-	714
Amounts owed to group undertakings	<u>12,889</u>	<u>5,532</u>
	<u>12,889</u>	<u>6,246</u>
Non-current		

Fitness First Clubs Limited

Amounts owed to group undertakings	148,878	147,122
Total	161,767	153,368

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

14. BORROWINGS AND OTHER FINANCIAL LIABILITIES (CONTINUED)

The amounts due to group undertakings are repayable on 5 November 2016. The expected repayment date is likely to be after its contractual maturity. No interest is charged (2014: 0%). No intercompany loans were waived during the year (2014: £nil).

15. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Obligations under finance leases and hire purchase contracts

The Company has no finance leases or hire purchase contracts.

Operating lease commitments

The Company leases various clubs and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights including certain leases that have a contingent element such as a market indexed based rent review and/or a turnover rent. The lease expenditure charged to profit or loss during the year is disclosed in note 5.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings	
	2015	2014
	£'000	£'000
Within one year	11,450	11,530
Two to five years	42,559	44,738
After five years	65,938	80,570
Total	119,947	136,838

At 31 October 2015 the Company did not benefit from bank guarantees in respect of rental obligations.

Sublease payments expected to be received under non-cancellable subleases

	2015	2014
	£'000	£'000
Total expected future minimum sublease receipts	611	84

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

16. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and the Company intends to settle its current income tax assets and liabilities on a net basis. There are no recognised deferred tax balances (2014: £nil).

	2015 £'000	2014 £'000
Unprovided deferred tax		
Decelerated capital allowances	27,369	28,367
Other short term temporary differences	739	-
Deferred tax assets (net)	<u>28,108</u>	<u>28,367</u>

The Company has not recognised the above deferred tax assets as it is not probable that the assets will be recovered. Deferred taxation of £28.1m (2014: £28.4m) has not been recognised as there is insufficient evidence that the asset will be recovered in the near future. The asset will be recovered if there are suitable taxable profits against which the reversal of the asset can be relieved in future periods.

17. PROVISIONS

	Club restoration provision £'000	Onerous leases provision £'000	Other provisions £'000	Total £'000
At 1 November 2013	1,196	1,909	597	3,702
Additions ¹	15	788	-	803
Charge ² / utilisation for the year	(90)	(1,732)	(268)	(2,090)
Unwinding of discount in the year	19	89	-	108
At 31 October 2014	<u>1,140</u>	<u>1,054</u>	<u>329</u>	<u>2,523</u>
Additions ¹	-	315	-	315
Charge ² / utilisation for the year	(30)	(318)	(27)	(375)
Unwinding of discount in the year	21	34	-	55
At 31 October 2015	<u>1,131</u>	<u>1,085</u>	<u>302</u>	<u>2,518</u>

¹ Represents new provisions arising during the year

² Represents the adjustment or utilisation of existing provisions during the year

The onerous lease provision represents amounts recognised in connection with property commitments relating to certain clubs which are considered onerous in line with the Company policy. These will differ on a club by club basis according to the tenant's optional break date of the lease term or the lease end date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

17. PROVISIONS (CONTINUED)

The restoration provision represents the company's obligations in relation to contractual lease requirements to reinstate lease sites to their original condition at the end of the lease term. Cashflows will be incurred at the end of the lease term.

The other provision represents an estimate of the Company's liability for outstanding third party claims based on historical trends and minor legal claims, all of which are individually insignificant and expected to be utilised over the next 12 months.

The discount rate used to compute the onerous lease provision was 1.83% (2014: 2.10%) and the restoration provision was 1.88% (2014: 1.88%).

	2015	2014
	£'000	£'000
Analysis of total provisions		
Current	609	577
Non-current	1,909	1,946
Total provisions	<u>2,518</u>	<u>2,523</u>

18. SHARE CAPITAL

	2015	2014
Authorised		
100 Ordinary £1 shares	<u>100</u>	<u>100</u>
Called up, allotted and fully paid		
2 Ordinary £1 shares	<u>2</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

19. NOTES TO CASHFLOW STATEMENT

	2015 £'000	2014 £'000
Loss for the year	(6,675)	(13,299)
<i>Adjustments for:</i>		
Loss on disposal of property, plant and equipment	724	2,810
Depreciation of tangible fixed assets	10,262	9,484
Amortisation of intangible assets	165	80
Impairment of property, plant and equipment	2,359	1,762
Impairment reversal of property, plant and equipment	(1,780)	-
Impairment of intangible assets	1,552	-
Finance costs	51	112
Operating profit before changes in working capital and provisions	6,658	949
<i>Change in operating assets and liabilities:</i>		
Decrease in inventories	50	175
(Increase) / decrease in receivables	(617)	(553)
Decrease in payables	(1,602)	(1,308)
Decrease in provisions	(61)	(1,287)
Cash generated / (used in) from operations	4,428	(2,024)
Cash at bank and in hand	341	-
Bank overdraft	-	(714)
	341	(714)

20. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2015 £'000	2014 £'000
Assets in the course of construction:		
Contracted for but not provided	74	1,549

21. CONTINGENT LIABILITIES

As at 31 October 2015, the Company, in conjunction with other sister companies, is a Guarantor of certain liabilities of an intermediate parent entity in the United Kingdom, Fitness First Finance Limited, under an Agreement for provision

of a £115.0m Senior loan facility. As part of these guarantee arrangements, the Company charged certain of its assets in favour of the Lenders under that credit Agreement (for which the Agent is HSBC Bank PLC, London).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

22. FINANCIAL INSTRUMENTS

Treasury policy and financial risk management

The Company's financial instruments, other than derivatives, comprise related party and external borrowings, cash and liquid resources and various other items, such as trade receivables and payables.

The Company uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks faced by the Company are liquidity and funding, foreign exchange, and credit risk. It is the Company's policy not to hold financial instruments for trading purposes. The Company's policies in respect of the management of these risks, are as follows:

Liquidity and funding risk

Liquidity and funding risk is the risk that the Company could be unable to settle or meet its obligations as they fall due. The Company finances its operations through a combination of cash generated from operations, borrowings from its parent company and leasing. The Company's objective is to maintain a balance between the continuity and flexibility of funding to manage working capital and requirements for further investment in growth of the business. The Company monitors the maturity of financial liabilities to avoid the risk of a shortage of funds. Management prepares, reviews and submits to the parent undertaking a cash flow forecast each fortnight showing the expected cash position each week looking ahead for a period of 20 weeks.

At the year end the Company had related party term loans of £161.6m (2014: £152.6m) which is available until November 2016. The expected repayment date is likely to be after its contractual maturity.

The maturity profile of financial liabilities is as follows:

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2014						
Trade and other payables	20,798	-	-	9,633	-	30,431
Borrowings and other financial liabilities	6,246	-	-	147,122	-	153,368
Total	27,044	-	-	156,755	-	183,799

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity and funding risk (continued)

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2015						
Trade and other payables	15,810	-	-	8,727	-	24,537
Borrowings and other financial liabilities	12,889	-	-	148,878	-	161,767
Total	<u>28,699</u>	<u>-</u>	<u>-</u>	<u>157,605</u>	<u>-</u>	<u>186,304</u>

Interest rate risk

The Company is not exposed to interest rate risk on related party borrowings. The Company has no other significant exposure to interest rates or other market risks. Therefore a sensitivity analysis has not been prepared.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. This concerns both trade and other receivables and financial assets.

The Company is exposed to credit risk attributed to trade and other receivables. The Directors do not consider the risk to be significant to the Company as the risk is spread across a large number of parties.

Credit risk also arises from other financial assets of the Company, primarily cash and cash equivalents, through the default of a counterparty. The maximum exposure is equal to the carrying value of these instruments.

The Directors believe credit risk on these financial instruments is limited as the Company predominantly deals with banks with high credit ratings

The ages of trade and other receivables were as follows:

	Total £'000	Neither past due nor impaired £'000	0 - 60 days £'000	60 - 90 days £'000	90 - 120 days £'000	More than 120 days £'000
2014						
Trade receivables, net	613	234	377	2	-	-
Other receivables	692	692	-	-	-	-
2015						
Trade receivables, net	940	281	592	9	58	-
Other receivables	1,601	1,601	-	-	-	-

Fitness First Clubs Limited

Trade receivables of £0.6m (2014: £0.4m) were past due but not impaired. These relate to customers where there has been no history of default and the amounts are considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

22. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments.

	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
As at 31 October 2014				
Financial assets				
Trade and other receivables	1,305	-	1,305	1,305
	<u>1,305</u>	<u>-</u>	<u>1,305</u>	<u>1,305</u>
Non-financial assets			84,597	84,597
Total assets			<u>85,902</u>	<u>85,902</u>
Financial liabilities				
Trade and other payables	-	(30,431)	(30,431)	(30,431)
Borrowings and other financial liabilities	-	<u>(153,368)</u>	<u>(153,368)</u>	<u>(153,368)</u>
	<u>-</u>	<u>(183,799)</u>	<u>(183,799)</u>	<u>(183,799)</u>
Non-financial liabilities			(2,523)	(2,523)
Total liabilities			<u>(186,322)</u>	<u>(186,322)</u>
	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
As at 31 October 2015				
Financial assets				
Cash and cash equivalents	341	-	341	341
Trade and other receivables	<u>2,541</u>	<u>-</u>	<u>2,541</u>	<u>2,541</u>
	<u>2,882</u>	<u>-</u>	<u>2,882</u>	<u>2,882</u>
Non-financial assets			78,845	78,845
Total assets			<u>81,727</u>	<u>81,727</u>
Financial liabilities				
Trade and other payables	-	(24,537)	(24,537)	(24,537)
Borrowings and other financial liabilities	-	<u>(161,767)</u>	<u>(161,767)</u>	<u>(161,767)</u>
	<u>-</u>	<u>(186,304)</u>	<u>(186,304)</u>	<u>(186,304)</u>
Non-financial liabilities			(2,518)	(2,518)
Total liabilities			<u>(188,822)</u>	<u>(188,822)</u>

The fair value of trade and other receivables, trade and other payables and intercompany payables is equal to book value as they are short term in nature.

The company does not have any financial instruments held at fair value through profit and loss. All financial instruments held by the Company are held at carrying value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

23. PENSION SCHEMES

There is no defined benefit company pension scheme although the Company does make contributions on behalf of certain directors and employees in respect of personal pension arrangements together with contributions under defined contribution schemes relating to employees, which are disclosed in note 6.

24. RELATED PARTY TRANSACTIONS

The following transactions with related parties took place during the year:

	2015 £'000	2014 £'000
Fitness First Limited (parent company) – Management fees payable	616	3,778
Fitness First Limited (parent company) – Royalty fees payable	2,263	3,441
Fitness First Limited (parent company) – IT recharge	993	1,319

The following balances were held with related parties:

	2015 £'000	2014 £'000
Intercompany loan with parent (Fitness First Ltd)	(161,646)	(152,621)
Intercompany payable with Mike Corby Holdings Ltd (fellow subsidiary)	(33)	(33)
Intercompany payable with Connected Fitness Labs Ltd (fellow subsidiary)	(88)	-

Transactions with Fitness First Ltd (parent) are typically added/deducted from the outstanding balance which is unsecured and bears no interest (2014: 0%). Fitness First Ltd has amended the maturity date of the intercompany loan so that the balance is not repayable until November 2016.

Remuneration of key management personnel

The remuneration of the Executive Company, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2015 £'000	2014 £'000
Short-term employee benefits	1,444	1,596
Post-employment benefits	106	79
Sums paid to third parties	24	-
	<u>1,574</u>	<u>1,675</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2015

25. SUBSEQUENT EVENTS

Having received strong backing from our owners since their takeover in September 2012, we recognise the need for them to realise a return on their investment. As a result of this, we have begun considering options for finding a new owner for the UK business. Advisors have been appointed in January 2016 to help us identify the most effective way of undertaking this strategy. We have begun the marketing of the UK business to identify potential buyers and assess their level of interest.

Also subsequent to year end the Company has ceased trading at 7 clubs and one office building as part of a continued portfolio rationalisation programme.

In addition, the Company has settled a property claim in its favour and has received £0.9m in compensation towards costs related to an onerous lease. As at 31 October 2015 the outcome of the claim was not known and therefore an asset has not been recognised at that date.

26. ULTIMATE CONTROLLING PARTY

The ultimate parent company and controlling party, which heads the largest group for which consolidated accounts are produced and of which the company is a member, is Fitness First Luxembourg SCA (which is ultimately owned and controlled by funds advised by Oaktree Capital Management which own shares representing 55% of the issued share capital of that company), a company incorporated in Luxembourg.

The smallest group of which the Company is a member and for which consolidated accounts are prepared is Fitness First Finance Limited, a company incorporated in the United Kingdom. Copies of the accounts of Fitness First Finance Limited can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.