# LA Fitness (1998) Limited

## (A Company Limited by Guarantee)

# Directors' report and financial statements

31 July 1999

Registered number 3502663

# Directors' report and financial statements

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# Company information

| | |
|---|---|
| **Directors** | J Taylor<br>S Wenbourne<br>K Gondhia |
| **Secretary** | K Gondhia |
| **Registered office** | 60 Commercial Road<br>London<br>E1 1LP |
| **Auditors** | KPMG<br>Chartered Accountants<br>Registered Auditors<br>Norfolk House<br>Silbury Boulevard<br>Central Milton Keynes<br>MK9 2HA |
| **Principal bankers** | Barclays Bank Plc<br>54 Lombard Street<br>London<br>EC3V 9EX |

# Directors' report

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

**Principal activities and review of business**

The company's principal activity during the year was that of the operation of health and fitness centres and related activities.

During the year the company operated seven health and fitness centres. A licence fee is payable by the company for certain property and assets which continue to be owned by other companies in the LA Leisure Group.

The results for the year are set out in the Profit and Loss Account on page 5.

**Millennium and IT risk**

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

**Directors and directors' interests**

The directors who served during the year were as follows:

J Taylor
S Wenbourne
K Gondhia

The directors are the only members of the company by virtue of the company being limited by guarantee.

The interests of the directors in the share capital of the ultimate parent undertaking, LA Leisure Limited, are shown in the accounts of that company.

**Auditors**

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

By order of the board

**K Gondhia**
*Secretary*

60 Commercial Road
London
E1 1LP

# Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Norfolk House
Silbury Boulevard
Central Milton Keynes
Buckinghamshire, MK9 2HA
United Kingdom

# Report of the auditors to the members of LA Fitness (1998) Limited

We have audited the financial statements on pages 5 to 10.

**Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 July 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

*Chartered Accountants*
*Registered Auditors*

21 September 1999.

# Profit and loss account

*for the year ended 31 July 1999*

| | Note | 1999 | Six months ended 1998 |
|---|---|---|---|
| | | £ | £ |
| **Turnover** | *1,2* | | |
| Exceptional | *6* | **(212,000)** | - |
| Ongoing | | **4,789,576** | 2,273,306 |
| | | **4,577,576** | 2,273,306 |
| Cost of sales | | **(2,311,646)** | (1,059,865) |
| **Gross profit** | | **2,265,930** | 1,213,441 |
| Administrative expenses | | | |
| Exceptional | | - | - |
| Ongoing | | **(2,265,829)** | (1,200,231) |
| | | **(2,265,829)** | (1,200,231) |
| Other operating income | | - | - |
| **Operating profit** | | | |
| Exceptional | | **(212,000)** | - |
| Ongoing | | **212,101** | 13,210 |
| | | **101** | 13,210 |
| Interest payable | | **(101)** | - |
| **Profit on ordinary activities before taxation** | *3-4* | | |
| Exceptional | | **(212,000)** | - |
| Ongoing | | **212,000** | 13,210 |
| | | - | 13,210 |
| Taxation on profit on ordinary activities | *5* | **(8,491)** | - |
| **(Loss)/profit on ordinary activities after taxation** | | **(8,491)** | 13,210 |
| Retained profit brought forward | | **13,210** | - |
| **Retained profit carried forward** | | **4,719** | 13,210 |

Turnover and operating profit derive wholly from continuing operations.

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

The notes on pages 7 to 10 form part of these financial statements.

# Balance sheet
***at 31 July 1999***

| | *Note* | 1999 | | 1998 | |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| **Current assets** | | | | | |
| Stocks | *7* | **11,639** | | 37,400 | |
| Debtors | *8* | **3,038,460** | | 629,526 | |
| Cash at bank and in hand | | **4,000** | | 90,649 | |
| | | **3,054,099** | | 757,575 | |
| **Creditors:** amounts falling due within one year | *9* | **(2,346,974)** | | (744,365) | |
| **Net current assets** | | | **707,125** | | 13,210 |
| ***Provisions for liabilities and charges*** | *10* | | **(702,406)** | | - |
| **Net assets** | | | **4,719** | | 13,210 |
| **Reserves** | | | | | |
| Profit and loss account | | | **4,719** | | 13,210 |

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

**J Taylor**
*Director*

**S Wenbourne**
*Director*

The notes on pages 7 to 10 form part of these financial statements.

# Notes

*(forming part of the financial statements)*

## 1 Accounting policies

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

***Basis of preparation***

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

The company has taken advantage of the exemption in Financial Reporting Standard No. 1 from the requirement to produce a cash flow statement on the grounds that the parent undertaking includes the company in it's own published consolidated financial statements.

***Turnover***

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

***Stocks***

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

## 2 Turnover

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

The company's turnover arose entirely within the United Kingdom.

## 3 *Profit on ordinary activities before taxation*

Profit on ordinary activities before taxation is stated after charging:

| | 1999 | 6 months ended 1998 |
|---|---|---|
| | **£** | £ |
| Auditors' remuneration | | |
| - Audit fees | **12,000** | 11,898 |
| - Non-audit fees | **10,030** | - |

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

During the previous period the company's turnover benefited by approximately £212,000 as a result of a VAT planning scheme which may be curtailed in the future (see note 6 below).

# Notes *(continued)*

## 4 Staff costs

Staff costs were as follows:

| | 1999 £ | *6 months ended* 1998 £ |
|---|---|---|
| Wages and salaries | **1,351,079** | 610,038 |
| Social security costs | **87,087** | 38,057 |
| | **1,438,166** | *648,095* |

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

| | 1999 | 1998 |
|---|---|---|
| | **Number of employees** | |
| Administration | **25** | 17 |
| Club activities | **132** | 116 |
| Marketing | **9** | 3 |
| | **166** | 136 |

## 5 Taxation

| | 1999 £ | 6 months ended 1998 £ |
|---|---|---|
| Corporation tax at 30.67% | **4,356** | - |
| Under provision in prior year | **4,135** | - |
| | **8,491** | - |

## 6 Exceptional item

During 1998 the LA Leisure Group implemented a VAT planning scheme, which continues to operate. It has now become clear that tax legislation will be enacted to curtail this scheme and that the tax authorities are seeking to challenge such schemes. Whilst remaining fully confident of the success of the scheme put in place by the Group, the directors consider, given the current background, that it is prudent to recognise the benefit of the scheme only when full and final agreement is reached with the tax authorities. Consequently, the benefit of the scheme in the year ended 31 July 1999 has not been reflected in the company's financial statements and provision has been made for the benefit of £212,000 which was reflected by the company in the financial statements for the year ended 31 July 1998. The charge for this provision has been disclosed as an exceptional item in the results of the year ended 31 July 1999.

# Notes *(continued)*

## 7 Stocks

| | 1999 £ | 1998 £ |
|---|---|---|
| Finished goods for resale | **11,639** | 37,400 |

## 8 Debtors

| | 1999 £ | 1998 £ |
|---|---|---|
| Trade debtors | **16,029** | 41,711 |
| Amounts owed by group undertakings | **2,695,633** | 314,028 |
| Other debtors | **-** | 9,005 |
| Prepayments and accrued income | **326,798** | 264,782 |
| | **3,038,460** | 629,526 |

## 9 Creditors: amounts falling due within one year

| | 1999 £ | 1998 £ |
|---|---|---|
| Bank loans and overdrafts (secured - see below) | **-** | 7,048 |
| Trade creditors | **-** | 313,993 |
| Amounts owed to group undertakings | **2,104,658** | 8,927 |
| Social security and other taxes | **52,353** | 85,452 |
| Corporation tax | **8,491** | - |
| Accruals and deferred income | **181,472** | 328,945 |
| | **2,346,974** | 744,365 |

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

## 10 Provisions for liabilities and charges

| | 1999 £ | 1998 £ |
|---|---|---|
| Other provisions | **702,406** | - |

Other provisions are in respect of all benefits earned by the company from the VAT planning scheme, further details of which are provided in note 6.

# Notes *(continued)*

## 11 Contingent liabilities

The company has provided cross guarantees to its bankers in respect of the bank borrowings of other group undertakings. A contingent liability therefore exists to the extent of the bank borrowings of the other group undertakings. At the year this amounted to £5,954,032 *(1998: £2,223,756)*.

## 12 Members' liability

The liability of the members is limited to £1 per member in the event of a winding up.

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

The company is a subsidiary undertaking of LA Leisure Limited, which is the ultimate parent company incorporated in England where the company's voting rights are controlled by LA Leisure Limited.

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

## 14 Related party transactions

All of the company's voting rights are controlled within the group headed by LA Leisure Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.