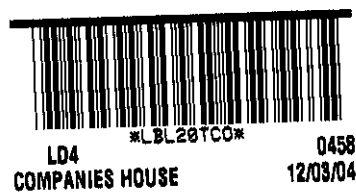


L A Fitness (1998) Limited
(A company limited by guarantee)

**Directors' report and financial
statements**

Registered number 3502663

31 July 2003



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Company information

Directors R Taylor
LA Fitness plc (registered number 3224406)
LA Leisure Limited (registered number 1728962)

Secretary K Gondhia

Registered office 101 Commercial Road
London
E1 1RD

Auditors KPMG Audit Plc
Chartered Accountants
Registered Auditor
Altius House
One North Fourth Street
Central Milton Keynes
MK9 1NE

Principal bankers Allied Irish Bank plc
St Helen's
1 Undershaft
London EC3A 8AB

Barclays Bank plc
50 Pall Mall
London SW1A 1QA

The Royal Bank of Scotland plc
2 Waterhouse Square
138 Holborn
London EC1N 2TH

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 July 2003.

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 six health and fitness centres, including the original Westminster club which was closed in February 2003. The Kingston club was closed following the end of the financial year.

A licence fee is payable by the company for certain property and assets which continue to be owned by other companies in the LA Fitness Group.

The result for the year is set out on page 5.

Dividends

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who served during the year were as follows:

R Taylor	
K Gondhia	(resigned 11 August 2002)
J Taylor	(resigned 11 August 2002)
LA Fitness plc	(appointed 11 August 2002)
LA Leisure Limited	(appointed 11 August 2002)

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 Fitness plc, are shown in the accounts of that company.

Political and charitable contributions

The company made no political or charitable contributions during the year.

Auditors

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

By order of the board



K Gondhia
Secretary

101 Commercial Road
London
E1 1RD

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 Audit Plc

Altius House
One North Fourth Street
Central Milton Keynes
Buckinghamshire, MK9 1NE
United Kingdom

Report of the independent auditors to the members of L A Fitness (1998) Limited

We have audited the financial statements on pages 5 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

25 February 2004

Profit and loss account
for the year ended 31 July 2003

	<i>Note</i>	2003 £	2002 £
Turnover	1,3	4,639,423	5,395,774
Cost of sales		(3,299,961)	(3,240,849)
Gross profit		1,339,462	2,154,925
Administrative expenses		(1,339,449)	(2,154,925)
Operating profit		13	-
Interest payable		(13)	-
Profit on ordinary activities before taxation	3,4	-	-
Taxation on profit on ordinary activities	5	8,114	834
Retained profit for the year		8,114	834
Retained profit brought forward		12,851	12,017
Retained profit carried forward		20,965	12,851

The above results are derived wholly from continuing operations.

The notes on pages 7 to 12 form part of these financial statements.

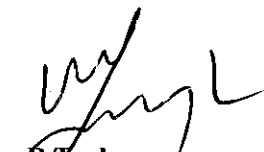
Statement of total recognised gains and losses
for the year ended 31 July 2003

	2003 £	2002 £
Profit for the financial year	8,114	834
Total recognised gains and losses relating to the financial year	8,114	834
Prior year adjustment (see note 14)	-	253
Total gains and losses recognised since the last annual report	8,114	1,087

Balance sheet
at 31 July 2003

	Note	2003	2002
		£	£
Current assets			
Stocks	6	22,820	22,025
Debtors	7	1,445,526	2,267,751
Cash at bank and in hand		3,200	3,458
		<u>1,471,546</u>	<u>2,293,234</u>
Creditors: amounts falling due within one year	8	<u>(633,264)</u>	<u>(1,463,066)</u>
Net current assets		838,282	830,168
Provisions for liabilities and charges	9	<u>(817,317)</u>	<u>(817,317)</u>
Net assets		<u>20,965</u>	<u>12,851</u>
Reserves			
Profit and loss account	11	<u>20,965</u>	<u>12,851</u>

These financial statements were approved by the board of directors on 16 February 2004 and were signed on its behalf by:


R Taylor
Director

The notes on pages 7 to 12 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Cash flow statement

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 its 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.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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.

Notes (continued)

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2003 £	2002 £
Auditors' remuneration		
- Audit	19,000	19,000
	<u>19,000</u>	<u>19,000</u>

No director received any emoluments for their services to the company (2002: nil).

In addition to the above, KPMG Audit Plc and its associates have been paid £59,000 in relation to the ongoing discussions with HM Customs & Excise referred to in note 9.

4 Staff costs

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

	Number of employees 2003	2002
Administration	6	6
Club activities	135	140
Marketing	6	6
	<u>147</u>	<u>152</u>

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	1,127,740	1,296,552
Social security costs	77,667	94,890
	<u>1,205,407</u>	<u>1,391,442</u>

Notes (continued)

5 Taxation

Analysis of charge/(credit) in period:

	2003 £	2002 £
Corporation tax on income for the year	-	281
Over provision in respect of previous years	(7,445)	(361)
	<hr/>	<hr/>
Total current tax	(7,445)	(80)
Deferred tax (see note 7)	(669)	(754)
	<hr/>	<hr/>
Tax on profit on ordinary activities	(8,114)	(834)
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is equal to the standard rate of corporation tax in the UK of 30% (2002: 30%) as explained below.

	2003 £	2002 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	-	-
	<hr/>	<hr/>
Current tax at 30% (2002: 30%)	-	-
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	600
Capital allowances for period in excess of depreciation	(180)	(98)
Utilisation of trading losses	-	(221)
Short term timing differences	(705)	-
Tax losses not utilised	885	-
Adjustments to tax charge in respect of previous periods	(7,445)	(361)
	<hr/>	<hr/>
Total current tax (see above)	(7,445)	80
	<hr/> <hr/>	<hr/> <hr/>

6 Stocks

	2003 £	2002 £
Finished goods for resale	22,820	22,025
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

7 Debtors

	2003 £	2002 £
Amounts owed by group undertakings	1,248,692	2,266,744
Prepayments	195,158	-
Net deferred tax asset	1,676	1,007
	<u>1,445,526</u>	<u>2,267,751</u>

	Deferred taxation £
At beginning of year	1,007
Credit to the profit and loss account for the year	669
	<u>1,676</u>
At end of year	<u>1,676</u>

The elements of deferred taxation are as follows:

	2003 £	2002 £
Accelerated capital allowances	541	293
Trading losses	1,135	-
Other short term timing differences	-	714
	<u>1,676</u>	<u>1,007</u>
Deferred tax asset	<u>1,676</u>	<u>1,007</u>

8 Creditors: amounts falling due within one year

	2003 £	2002 £
Amounts owed to group undertakings	6,332	253,973
Social security and other taxes	167,210	278,460
Corporation tax	8,491	9,325
Accruals and deferred income	451,231	921,308
	<u>633,264</u>	<u>1,463,066</u>

Notes (continued)

9 Provisions for liabilities and charges

	Other provisions £	Total £
At beginning and end of year	817,317	817,317
	<u>817,317</u>	<u>817,317</u>

Other provisions are in respect of all benefits earned by the company from a VAT planning scheme. The directors believe that it is prudent to recognise the benefit of the scheme only when agreement is reached with the tax authorities.

10 Legislative provisions

The company is incorporated as a private company limited by guarantee, without share capital.

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

11 Profit and loss account

	2003 £
At beginning of year	12,851
Retained profit for the year	8,114
	<u>20,965</u>
At end of year	<u>20,965</u>

12 Reconciliation of movement in members' funds

	2003 £	2002 £
Profit for the year	8,114	834
Opening members' funds	12,851	12,017
	<u>20,965</u>	<u>12,851</u>
Closing members' funds	<u>20,965</u>	<u>12,851</u>

13 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 £45,957,741 (2002: £36,319,848).

14 Prior year adjustment

During the previous year the company first adopted FRS19 'Deferred Taxation'. The effect of this adoption resulted in a prior year adjustment of £253 credit.

Notes *(continued)*

15 Related party transactions

As all of the company's voting rights are controlled within the group headed by LA Fitness plc, 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.

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

LA Fitness plc exercises day to day control over L A Fitness (1998) Limited, as a result of the directors of L A Fitness (1998) Limited being either directors or employees of LA Fitness plc. Therefore, the results, assets and liabilities of L A Fitness (1998) Limited form part of the consolidated LA Fitness Group.

The largest group in which the results of the company are consolidated is that headed by LA Fitness plc. The consolidated accounts are available to the public and may be obtained from 101 Commercial Road, London, E1 1RD.