

**Health and Fitness Holdings Limited (formerly
Sugargrove Limited)**

**Directors' report and financial
statements**

Registered number 04374665

For the period from incorporation to 31
December 2002



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Directors' report

The directors present their annual report together with the audited financial statements for the period ended 31 December 2002.

Principal activities

The company was incorporated on 15 February 2002 and changed its name from Sugargrove Limited to Health and Fitness Holdings Limited on 24 September 2002.

The company's principal activity is that of a holding company.

On 5 September 2002 the company acquired 100% of the issued share capital of Invicta Leisure Limited for consideration comprising cash of £44.6m, costs of £2.8m and the repayment of borrowings of £40.2m.

Business review

The directors are satisfied with the results for the year.

Proposed dividend and transfer to reserves

The results of the company for the period are shown in the profit and loss account on page 5. The directors do not recommend the payment of a dividend.

Share capital

On incorporation, the company had authorised share capital consisting of 100 ordinary shares of £1 each. On 22 May 2002 the authorised share capital was increased to £500 by the creation of a further 400 ordinary shares of £1 each.

The company issued one ordinary share at par value of £1 on incorporation for cash. On 22 May 2002 the company allotted 99 ordinary shares of £1 each at par value for cash.

On 5 September 2002 the 100 issued ordinary shares of £1 each and the 400 unissued ordinary shares of £1 each were subdivided and reclassified into 50,000 "B" ordinary shares of 1p each. On the same date, the company increased its authorised share capital from £500 to £197,204 by the creation of 175,737 new "A" ordinary shares of £1 each and 2,096,664 further "B" shares of 1p each.

The new unissued "A" ordinary shares and unissued "B" ordinary shares were allotted on 5 September 2002 at £1 per share resulting in a premium on issue of 99p per "B" ordinary share.

Directors and directors' interests

The directors who served the company during the period were as follows:

	Appointed	Resigned
MR Layton	8 October 2001	22 May 2002
ME Richards	8 October 2001	22 May 2002
AC Cooper-Evans	22 May 2002	22 October 2002
PL Taylor	22 May 2002	22 October 2002
TJ Buchan Scott	22 May 2002	5 September 2002
JP Belkin	22 May 2002	5 September 2002
NJ Irens	22 May 2002	22 October 2002
M Ball	5 September 2002	-
SJ Creed	5 September 2002	13 May 2003
KB McCollum	5 September 2002	24 February 2003
AF Smith	12 March 2003	22 August 2003
N Gillis	21 August 2003	-
M McGuigan	3 October 2003	-

M Ball, being appointed during the period, will resign at the next annual general meeting in accordance with the articles of association and being eligible, offer themselves for re-election.

None of the other directors who held office at the end of the financial period had any disclosable interest in the shares of the company. The interests of M Ball, SJ Creed and KB McCollum in the shares of the company's ultimate parent undertaking, Esporta Group Limited, are disclosed in the financial statements of that company.

Directors' report *(continued)*

Employees

It is Esporta Group Limited's policy to involve employees, including employees of its subsidiaries, in the business and to ensure that matters to concern to them, including the Group's aims and objectives and its financial performance, are communicated in an open and regular way. This is achieved through the use of focus groups, business briefings, newsletters and other less formal communications.

The Group has a comprehensive annual training and personal development plan which accords with its policy of developing talent within the Group.

The promotion of equal opportunities for all employees, including disabled persons, is regarded as an important Group priority. Applications for employment and promotion of disabled persons are treated on the same basis as those from other applicants having regard to aptitude, ability, requirements of the job and experience. The Group's policy is to seek to continue the employment of, and to arrange appropriate training for, employees who have been become disabled during the period when they were employed by the Group.

Political and charitable contributions

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

Auditors

KPMG LLP were appointed auditors on 12 February 2003. In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



M Ball
Director

Trinity Court
Molly Millars Lane
Wokingham
Berkshire
RG41 2PY
4 December 2003

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 group 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 LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of Health and Fitness Holdings Limited (formerly Sugargrove Limited)

We have audited the financial statements on pages 5 to 14.

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 audit 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 affairs of the Company as at 31 December 2002 and of the loss of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

KPMG LLP

4/12/2003

Profit and loss account*for the eleven month period ended 31 December 2002*

	<i>Note</i>	2002 £000
Administrative expenses		(167)
Operating loss		(167)
Net interest payable and similar charges	4	(7,319)
Loss on ordinary activities before taxation	2	(7,486)
Tax on loss on ordinary activities	5	314
Loss on ordinary activities after taxation		(7,172)
Dividends		-
Retained loss for the financial period	11	(7,172)

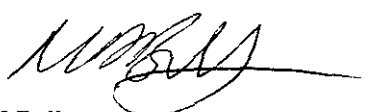
All amounts relate to acquisitions during the period.

The company had no recognised gains or losses during the period other than the loss for the period as stated above.

Balance sheet*at 31 December 2002*

	<i>Note</i>	2002 £000
Fixed assets		
Investments	6	47,626
		<hr/> 47,626
Current assets		
Debtors	7	202,816
Cash at bank and in hand		3,858
		<hr/> 206,674
Creditors: amounts falling due within one year	8	(972)
		<hr/> 205,702
Net current assets		<hr/> 205,702
Total assets less current liabilities		<hr/> 253,328
Creditors: amounts falling due after more than one year	9	(258,188)
		<hr/> (4,860)
Net liabilities		<hr/> (4,860)
Capital and reserves		
Called up share capital	10	197
Share premium account	11	2,115
Profit and loss account	11	(7,172)
		<hr/> (4,860)
Shareholders' funds		<hr/> (4,860)

These financial statements were approved by the board of directors on 4 December 2003 and were signed on its behalf by:



M Ball
Director

Reconciliation of movements in shareholders' funds
for the eleven month period ended 31 December 2002

	Company 2002 £000
Loss for the financial year	(7,172)
New share capital subscribed (net of issue costs)	2,312
Net movement in shareholders' funds	(4,860)
Opening shareholders' funds	-
Closing shareholders' funds	<u>(4,860)</u>

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. The company has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and within the requirements of the Companies Act 1985.

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Cashflow statement

The company is exempt from the requirement of FRS 1 to prepare a cashflow statement as it is a wholly owned subsidiary undertaking of Esporta Group Limited, and its cashflows are included within the consolidated cashflows of that company.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, Paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Investments

Investments held as fixed assets are stated at cost less amounts written off.

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.

Notes (continued)

2 Loss on ordinary activities before taxation

Auditors remuneration was paid by the Company's ultimate parent undertaking, Esporta Group Limited, and is disclosed in the financial statements of that company.

3 Directors' remuneration

The directors received no remuneration from the company during the period but were remunerated by the company's ultimate parent undertaking, Esporta Group Limited.

4 Net interest payable and similar charges

	2002 £000
On bank and other loans repayable in more than five years	10,816
Loan arrangement fees	271
Amortisation of arrangement fees	166
	<hr/> 11,253
Bank interest receivable	(204)
Interest receivable from group undertakings	(3,730)
	<hr/> <hr/> 7,319

Notes (continued)

5 Taxation

Analysis of charge in period:

	2002 £000
<i>UK corporation tax</i>	
Current tax on losses for the period - normal	314
	<hr/>
Total current tax	314
	<hr/>
Tax on loss on ordinary activities	314
	<hr/>

Factors affecting the tax charge for the current period

The current tax credit for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2002 £000
<i>Current tax reconciliation</i>	
Loss on ordinary activities before tax	7,486
	<hr/>
Current tax at 30 %	2,246
<i>Effects of:</i>	
Excess losses carried forward	(1,932)
	<hr/>
Total current tax charge (see above)	314
	<hr/>

Notes (continued)

6 Fixed asset investments

Company	Shares in subsidiary undertaking £000
<i>Cost</i>	
Additions	47,626
	<hr/>
At end of period	47,626
	<hr/>
<i>Net book value</i>	
At 31 December 2002	47,626
	<hr/> <hr/>

Additions of £47.6m during the period relate to the acquisition of the entire issued share capital of Invicta Leisure Limited during the period for consideration, satisfied in cash, of £44.6m, costs of £2.8m and the repayment of borrowings of £40.2m, and the acquisition of DSCL Holdings Limited for consideration, satisfied in cash, of £0.2m.

Invicta Leisure Limited is a company registered in England and Wales which operates health and fitness clubs within the United Kingdom and Germany.

7 Debtors

	2002 £000
Due within one year:	
Corporation Tax	314
Amounts owed by group undertakings	202,502
	<hr/>
	202,816
	<hr/> <hr/>

8 Creditors: amounts falling due within one year

	2002 £000
Amounts owed to group undertakings	25
Accruals	947
	<hr/>
	972
	<hr/> <hr/>

Notes (continued)

9 Creditors: amounts falling due after more than one year

	2002 £000
Other loans (see below)	258,188
	<u>258,188</u>

Analysis of other loans:

	Other loans £000
Repayable:	
Between two and five years	25,020
In five years or more	236,328
	<u>261,348</u>
Less: Unamortised financing costs	(3,160)
	<u>258,188</u>

	Issue date	Interest rate %	Principal outstanding £000	Interest accrued to 31 Dec 2002 £000	Total £000	Repayable	Security
Loan 1	28 May 2002	10	(600)	(36)	(636)	30 June 2012	Unsecured
Loan 2	26 July 2002	10	(85,644)	(3,793)	(89,437)	31 Dec 2012	Unsecured
Loan 3	28 May 2002	10	(29,857)	(1,817)	(31,674)	30 June 2012	Unsecured
Loan 4	12 July 2002	10	(14,484)	(694)	(15,178)	1 July 2012	Unsecured
Loan 5	16 July 2002	10	(30,769)	(1,449)	(32,218)	2 July 2012	Unsecured
Loan 6	5 Sep 2002	10	(65,045)	(2,120)	(67,165)	31 Dec 2012	Unsecured
Vendor loan note 1 (VLN1)	5 Sep 2002	see note 6	(12,623)	(523)	(13,146)	31 Dec 2007	Secured
Vendor loan note 2 (VLN2)	5 Sep 2002	12.50	(11,511)	(383)	(11,894)	31 Dec 2005	Secured
			<u>(250,533)</u>	<u>(10,815)</u>	<u>(261,348)</u>		
Less: Unamortised financing costs					3,160		
					<u>(258,188)</u>		

Notes (continued)

9 Creditors: amounts falling due after more than one year (continued...)

Notes

- 1 Subordinated to VLNI and VLN2, otherwise all loans rank pari passu.
- 2 Redeemable at the option of the noteholder on 31 May or 30 November in any of the years 2003 to 2011 inclusive, but subject to certain terms of the VLN agreements.
- 3 Redeemable at the option of the noteholder on 30 June or 31 December in any of the years 2003 to 2011 inclusive, but subject to certain terms of the VLN agreements.
- 4 A minimum amount of £5,486,617 cannot be redeemed prior to 31 March 2003.
- 5 The vendor loan notes benefit from second ranking security of the Invicta group.
- 6 For the period 5 September 2002 to 30 June 2003, interest accrues at 10% per annum and, at the end of this period, the interest is capitalised to form part of the principal. In respect of each subsequent six month period, interest accrues at a rate of 8% per annum and is payable in cash on the last day of the relevant interest period. A further interest amount of 4.5% accrues on the loan notes but is capitalised and will form part of the principal amount.
- 7 Subordinated to the VLN1 but ranking in priority to all other loan notes.

10 Called up share capital

	2002 £000
<i>Authorised</i>	
175,737 'A' ordinary shares of £1 each	175
2,146,664 'B' ordinary shares of 1p each	22
	<hr/> 197 <hr/>
<i>Allotted, called up and fully paid</i>	
175,737 'A' ordinary shares of £1 each	175
2,146,664 'B' ordinary shares of 1pence each	22
	<hr/> 197 <hr/>

On incorporation, the company had authorised share capital consisting of 100 ordinary shares of £1 each. On 22 May 2002 the authorised share capital was increased to £500 by the creation of a further 400 ordinary shares of £1 each.

The company issued one ordinary share at par value of £1 on incorporation for cash. On 22 May 2002 the company allotted 99 ordinary shares of £1 each at par value for cash.

On 5 September 2002 the 100 issued ordinary shares of £1 each and the 400 unissued ordinary shares of £1 each were subdivided and reclassified into 50,000 "B" ordinary shares of 1p each. On the same date, the company increased its authorised share capital from £500 to £197,204 by the creation of 175,737 new "A" ordinary shares of £1 each and 2,096,664 further "B" shares of 1p each.

The new unissued "A" ordinary shares and unissued "B" ordinary shares were allotted on 5 September 2002 at £1 per share resulting in a premium on issue of 99p per "B" ordinary share.

The "A" and "B" ordinary shares rank pari passu, in accordance with the company's articles of association.

Notes *(continued)*

11 Share premium and reserves

	Share premium account £000	Profit and loss account £000
Retained loss for the period	-	(7,172)
Premium on share issue, less expenses	2,115	-
	<hr/>	<hr/>
At end of period	2,115	(7,172)
	<hr/>	<hr/>

12 Ultimate parent undertaking

The company's immediate and ultimate parent undertaking is Esporta Group Limited, a company registered in England and Wales. The consolidated accounts of Esporta Group Limited are available to the public and may be obtained from Trinity Court, Maly Millars Lane, Wokingham, Berkshire, RG41 2PY.