

**FITNESS FIRST HOLDINGS LIMITED  
AND SUBSIDIARIES**

**Report and Financial Statements**

**Period ended 31 October 2003**

**Deloitte & Touche LLP  
Southampton**



A16  
COMPANIES HOUSE

\*AX6CJYH2\*

0699  
28/09/04

## **FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES**

<b>CONTENTS</b>	<b>PAGE</b>
<b>Officers and Professional Advisers</b>	<b>1</b>
<b>Directors' Report</b>	<b>2</b>
<b>Statement of Directors' Responsibilities</b>	<b>4</b>
<b>Independent Auditors' Report</b>	<b>5</b>
<b>Consolidated Profit and Loss Account</b>	<b>6</b>
<b>Consolidated Balance Sheet</b>	<b>7</b>
<b>Company Balance Sheet</b>	<b>8</b>
<b>Consolidated Cash Flow Statement</b>	<b>9</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>	<b>9</b>
<b>Consolidated Statement of Total Recognised Gains and Losses</b>	<b>10</b>
<b>Reconciliation of Movement in Consolidated Shareholders' Funds</b>	<b>10</b>
<b>Notes to the Accounts</b>	<b>11</b>

# **FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

M W Balfour (Chief Executive)  
Y V Chotai (Non Executive)  
A G de Leede (Executive)  
J D Lovering (Chairman)  
J E McGoldrick (Executive)  
D P Murphy (Non Executive)  
T C Newman (Finance Director)  
C D J Pearce (Non Executive)

### **SECRETARY**

M S Miller

### **REGISTERED OFFICE**

58 Fleets Lane  
Poole  
Dorset  
BH15 3BT

### **BANKERS**

National Westminster Bank plc  
5 Old Christchurch Road  
Bournemouth  
BH1 1DU

### **SOLICITORS**

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

Preston & Redman  
Hinton House  
Bournemouth  
BH1 2EN

### **AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Southampton

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## DIRECTORS' REPORT

The Directors present their first report and the audited consolidated financial statements for the period from 17 March 2003 to 31 October 2003.

## INCORPORATION AND CHANGE OF NAME

The company was incorporated on 17 March 2003 as Portrush Limited. On 7 July 2003 the company changed its name to Fitness First Holdings Limited.

## PRINCIPAL ACTIVITIES

The principal activity of the Group is that of operator of health and fitness clubs, within the UK and internationally.

## ACQUISITIONS

On 10 April 2003, a subsidiary of the company, Moray Limited, made a recommended cash offer of 175 pence per share for the issued share capital of Fitness First Plc, a company listed on the London Stock Exchange. This offer became unconditional on 25 June 2003 and the shares of Fitness First Plc were de-listed on 9 July 2003. Fitness First Plc then re-registered as a private company and changed its name to Fitness First Limited.

## REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The results for the period reflect the trading of the Group from 25 June 2003 to 31 October 2003. The Directors are satisfied with the performance and anticipate further growth in the year ahead.

## RESULTS AND DIVIDENDS

The results for the period are shown in the profit and loss account on page 6. A dividend has been accrued in respect of the B and C Preference shares, consistent with the rights of those shares, as disclosed in note 18 to the accounts. The dividend will not be paid until such time as the company has the appropriate level of distributable reserves.

## DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. The directors holding office during the period are set out below and their interests in the share capital of the Company at their date of appointment and 31 October 2003 were:

	'A' Ord shares	'B' Ord shares	'C' Ord shares	'B' Pref shares	'C' Pref shares
	2003 no.	2003 no.	2003 no.	2003 no.	2003 no.
C D J Pearce (appointed 27 June 2003)	-	32,010	-	6,180,490	-
M W Balfour (appointed 27 June 2003)	-	28,403	34,000	5,484,097	306,000
T C Newman (appointed 27 June 2003)	-	-	8,000	-	72,000
J E McGoldrick (appointed 27 June 2003)	-	12,379	31,000	2,390,121	279,000
A G de Leede (appointed 27 June 2003)	-	14,907	18,000	2,878,088	162,000
D P Murphy (appointed 17 March 2003)	71	-	-	-	-
Y V Chotai (appointed 17 March 2003)	381	-	-	-	-
J D Lovering (appointed 27 June 2003)	-	2,576	10,000	497,424	90,000

In addition Mr Chotai and Mr Murphy, who are representatives of Cinven Limited, have direct interests of 179,801 and 33,202 deep discount bonds, respectively, which were issued by the Group to funds managed by Cinven Limited (see note 28). There have been no changes in Directors' interests between the year end and the date of these accounts.

## **DIRECTORS' REPORT**

### **EMPLOYMENT POLICIES**

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

### **ENVIRONMENTAL POLICIES**

The Group recognises that it has a corporate responsibility to carry out its operation whilst minimising environmental impacts. The Group aims to comply with all applicable environmental legislation, to prevent pollution and to minimise environmental damage occurring as a result of its activities.

### **EMPLOYEE INVOLVEMENT**

Information on the Group is circulated via staff newsletters and visits by management. Regular meetings are held with employees to discuss operational, sales and financial progress of the business. Regular conferences are held for Club General Managers and in January there is a two day "Momentum" conference attended by over 1,000 employees from all the Group's subsidiaries.

A bonus scheme is in place for most employees; this has focused staff on the performance of the business.

### **SUPPLIER PAYMENT POLICY**

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. Creditor days at 31 October 2003 were 47.

### **POST BALANCE SHEET EVENT**

On 21 November 2003 a subsidiary undertaking, Fitness First Limited, disposed of its interest in the associated undertaking Fitness First (Hartlepool) Limited for nil consideration.

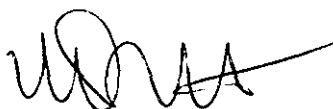
On 24 February 2004 a subsidiary undertaking, Fitness First Limited, acquired the remaining 50% of the issued share capital of Fitness First Berkeley Limited from The Berkeley Group Plc for a consideration of £500,000.

Since the year end the Group has entered into sale and leaseback transactions in relation to eleven UK properties. The total sale proceeds were £23.5 million resulting in a profit on disposal of £8.3 million.

### **AUDITORS**

Deloitte & Touche LLP were appointed auditors on 5 February 2004 and have expressed their willingness to continue in office as auditors and a resolution to confirm their re-appointment will be proposed at the forthcoming Annual General Meeting.

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



**M S MILLER**  
Company Secretary  
27 February 2004

## **FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES**

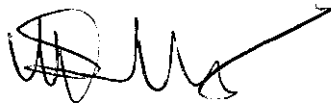
### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group 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; and
- 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 are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



**M S MILLER**

Company Secretary

27 February 2004

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
FITNESS FIRST HOLDINGS LIMITED (formerly Portrush Limited)**

We have audited the financial statements of Fitness First Holdings Limited for the period from 17 March 2003, the date of incorporation, to 31 October 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 29 together with the reconciliation of cash flow to movement in net debt, the consolidated statement of total recognised gains and losses and the reconciliation of movement in consolidated shareholders' funds. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the Directors' report and the other information contained in the annual report for the above period as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 and the Group as at 31 October 2003 and of the profit of the Group for the period from 17 March 2003 to 31 October 2003 and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Southampton  
27 February 2004

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period from 17 March 2003 to 31 October 2003

	Note	Before goodwill amortisation and exceptional items £000	Goodwill amortisation and exceptional items £000	Total £000
<b>Group turnover</b>	2	110,452	-	110,452
Cost of sales		(8,758)	-	(8,758)
<b>Gross profit</b>		101,694	-	101,694
Administrative expenses – exceptional items	4	-	(1,186)	(1,186)
– goodwill amortisation	4	-	(700)	(700)
– other		(85,230)	-	(85,230)
		(85,230)	(1,886)	(87,116)
<b>Group operating profit</b>	2,4	16,464	(1,886)	14,578
Share of profit of joint venture	2	33	-	33
Profit on disposal of fixed assets	4	-	599	599
Net interest payable	5	(11,012)	-	(11,012)
<b>Profit on ordinary activities before taxation</b>		5,485	(1,287)	4,198
Tax on profit on ordinary activities	6	(2,088)	163	(1,925)
<b>Profit on ordinary activities after taxation</b>		3,397	(1,124)	2,273
Equity minority interests		(877)	59	(818)
<b>Profit for the financial period</b>		2,520	(1,065)	1,455
Dividends	7	(606)	-	(606)
<b>Retained profit for the financial period</b>	19	1,914	(1,065)	849

Turnover for Fitness First Holdings Limited was £nil and its operating loss was £21,000, being administrative expenses for the period. All other activities arise from acquisitions and all activities are continuing.



# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET 31 October 2003

	Note	2003 £000
<b>Fixed assets</b>		
Intangible assets	8	41,640
Tangible assets	9	434,793
Investments	10	854
		<hr/> 477,287
<b>Current assets</b>		
Stocks	12	5,148
Debtors	13	15,803
Cash at bank and in hand		22,692
		<hr/> 43,643
<b>Creditors: amounts falling due within one year</b>	14	(114,985)
		<hr/> (71,342)
<b>Net current liabilities</b>		
		<hr/> 405,945
<b>Total assets less current liabilities</b>		
		<hr/> (352,171)
<b>Creditors: amounts falling due after more than one year</b>	15	
		(15,332)
<b>Provisions for liabilities and charges</b>	17	
		(17,874)
<b>Minority interests</b>		
Equity minority interests		<hr/> 20,568
		<hr/> <hr/> 20,568
<b>Capital and reserves</b>		
Called up share capital	18	19,870
Profit and loss account	19	92
Appropriation of unpaid preference dividend	19	606
		<hr/> 20,568
<b>Total shareholders' funds</b>		
		<hr/> <hr/> 1,092
<b>Equity shareholders' funds</b>		
<b>Non-equity shareholders' funds</b>		19,476
		<hr/> 20,568
		<hr/> <hr/> 20,568

These financial statements were approved by the Board of Directors on 27 February 2004.

Signed on behalf of the Board of Directors



**T C NEWMAN**  
Director

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## COMPANY BALANCE SHEET 31 OCTOBER 2003

	Note	2003 £000
<b>Fixed assets</b>		
Investments	10	16,567
<b>Current assets</b>		
Debtors	13	6,071
Cash at bank and in hand		191
		<u>6,262</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(2,733)</u>
<b>Net current assets</b>		<u>3,529</u>
<b>Total assets less current liabilities</b>		<u><u>20,096</u></u>
 <b>Capital and reserves</b>		
Called up share capital	18	19,870
Profit and loss account	19	(380)
Appropriation of unpaid preference dividend	19	606
<b>Total Shareholders' funds</b>		<u><u>20,096</u></u>
<b>Equity shareholders' funds</b>		620
<b>Non-equity shareholders' funds</b>		19,476
		<u><u>20,096</u></u>

These financial statements were approved by the Board of Directors on 27 February 2004.

Signed on behalf of the Board of Directors

*T Newman*

**T C NEWMAN**  
Director

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT

Period from 17 March 2003 to 31 October 2003

	Note	2003 £000
Net cash inflow from operating activities	20	37,165
Returns on investments and servicing of finance	21	(5,652)
Taxation	21	(1,215)
Capital expenditure	21	(20,414)
Acquisitions and disposals	21	(169,380)
Net cash outflow before management of liquid resources and financing		(159,496)
Financing	21	173,260
Increase in cash in the period	22	<u>13,764</u>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Period from 17 March 2003 to 31 October 2003

	Note	2003 £000
Increase in cash in the financial period		13,764
Cash inflow from increase in debt and lease financing		(168,566)
Movement in debt arising from cash flows		(154,802)
Loans and finance leases acquired with subsidiaries		(211,341)
Amortisation of debt costs		(1,644)
Interest accrued on deep discount bonds		(4,130)
Exchange differences		(72)
Movement in debt in the financial period		(371,989)
Net debt at beginning of financial period		-
Net debt at end of financial period	22	<u>(371,989)</u>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Period from 17 March 2003 to 31 October 2003

	2003 £000
Profit for the financial period	849
Currency translation differences on foreign currency net investments	(757)
	<hr/>
Total recognised gains and losses in the period	92
	<hr/>

## RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS Period from 17 March 2003 to 31 October 2003

	2003 £000
Profit for the financial period	849
Other recognised gains and losses relating to the financial period	(757)
Shares issued	19,870
Appropriation of unpaid preference dividend	606
	<hr/>
<b>Net addition to shareholders' funds</b>	20,568
Opening shareholders' funds	-
	<hr/>
<b>Closing shareholders' funds</b>	20,568
	<hr/>

## **NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

### **1. ACCOUNTING POLICIES**

The principal accounting policies adopted are described below.

#### **Basis of accounting**

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

#### **Basis of consolidation**

The Group financial statements consolidate the results of the Company and its subsidiaries, drawn up to 31 October each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. No profit and loss account for the Company has been presented as permitted by section 230 of the Companies Act 1985. Its profit for the period before dividends was £226,000.

#### **Intangible assets – goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses representing any excess of the fair value of the consideration given over the fair value of the identified assets and liabilities acquired is capitalised and amortised over its useful economic life, being not more than 20 years in accordance with FRS 10. Provision is made for any impairment. The Directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, except for 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:

Freehold and long leasehold buildings	2% per annum
Short leasehold buildings	over the term of the lease
Club fixtures	6.67% to 12.5% per annum
Fitness equipment	16.7% to 33.3% per annum
Office furniture, fittings & equipment	10% per annum
Computer equipment	33.3% per annum
Motor vehicles	25% per annum

#### **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment. In the Company balance sheet, where hedged by foreign currency loans, such foreign equity investments are retranslated at the balance sheet date with the associated exchange difference arising being taken to reserves in accordance with SSAP 20.

In the consolidated accounts, investments in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associate's profits or losses while the Group share of the net assets of the associate is shown in the consolidated balance sheet. Investments in joint ventures are accounted for using the gross equity method.

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**1. ACCOUNTING POLICIES (continued)**

**Stocks**

Stocks comprise merchandise, bar stock, complimentary bar stock, video stock and spare parts for fitness equipment, and are stated at the lower of cost and net realisable value.

**Taxation**

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

**Leases**

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

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

**Turnover**

The Group derives its income principally from the sale of fitness club memberships and associated joining and administration fees. 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. For new club openings, income is recognised from the date of opening of the club.

**Club pre-opening costs**

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

**Finance costs and debt**

Finance costs of debt and non-equity shares are recognised in the profit and loss account over the term of such investments at a constant rate on the carrying amount. Debt is initially stated at the amount of the net proceeds after the deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by repayments made in the period.

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**1. ACCOUNTING POLICIES (continued)**

**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 of the Group's subsidiary undertakings. The amount charged to the profit and loss account is the contribution payable in the year.

**Foreign exchange**

Transactions of companies denominated in foreign currencies are translated into their functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account, except those relating to funding of overseas subsidiaries, which are taken directly to reserves. The results of foreign subsidiaries and joint ventures and associated undertakings are translated at the average rates of exchange during the period and their balance sheets at the closing rates of exchange. Exchange differences arising from the translation of the opening net assets of subsidiaries, joint ventures and associated undertakings at the closing rate are taken directly to reserves.

*All other exchange differences are included in the profit and loss account.*

**2. ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS**

Group turnover represents amounts derived from the provision of goods and services, which fall within the Group's ordinary activities after deduction of value added tax.

	<b>Turnover</b>	<b>Operating profit/(loss)</b>	<b>Net assets</b>
<b>Geographical analysis by location and destination</b>	<b>2003 £000</b>	<b>2003 £000</b>	<b>2003 £000</b>
United Kingdom	44,177	9,544	191,955
Other European countries	39,596	3,211	140,325
Far East and Australia	26,649	5,675	53,080
Central	30	(1,966)	(364,792)
Exceptional items	-	(1,186)	-
Goodwill amortisation	-	(700)	-
	<u>110,452</u>	<u>14,578</u>	<u>20,568</u>

In addition, the Group's share of a joint venture's turnover, under the gross equity method required by FRS 9, was £303,000. Central includes head office costs, goodwill, other investments and net funds.

<b>Analysis of results of joint venture:</b>	<b>2003 £000</b>
Share of profit of joint venture	<u>33</u>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

#### Directors' emoluments

	2003 £000
Aggregate emoluments	532
	No.

Number of Directors who are members of	
- money purchase schemes	4
- defined benefit schemes	-

	2003 £000
Aggregate of amounts paid to money purchase pension schemes in respect of Directors	45

#### Highest paid Director

	2003 £000
Aggregate of emoluments and awards under long term incentive schemes	168

	2003 No.
Average number of persons (including Directors) employed by the Group in the period:	
Office and management	759
Operations staff	7,420
	8,179

	2003 £000
Staff costs (including Directors) incurred during the period in respect of these employees were:	
Wages and salaries	31,056
Social Security costs	4,171
Other pension costs	515
	35,742



# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 4. OPERATING PROFIT

	2003 £000
<b>Operating profit is stated after charging:</b>	
Depreciation and other amounts written off tangible and intangible fixed assets:	
Owned assets	10,454
Leased assets	1,426
Goodwill amortisation	700
Rentals under operating leases:	
Land and buildings	13,825
Fitness equipment	543
Motor vehicles	273
Auditors' remuneration:	
Audit services	210
- Group	20
- Company	20
Tax services	17
- compliance	15
- advisory	
Other non-audit services	
	<u>115</u>

In addition amounts payable to the auditors in connection with the acquisition of Fitness First Limited were £50,000.

#### Exceptional items:

	2003 £000
<b>Operating exceptional items</b>	
Reorganisation costs	719
Costs of pre-existing staff incentive scheme	467
	<u>1,186</u>
<b>Non-operating exceptional items</b>	
Profit on disposal of freehold property	(599)
	<u>587</u>

The profit on disposal of fixed assets, £599,000, arose in respect of the sale of part of a freehold site.

### 5. NET INTEREST PAYABLE

	2003 £000
<b>Interest payable and similar charges</b>	
Bank loans and overdrafts	6,757
Deep discount bonds	4,263
Finance leases and hire purchase contracts	215
	<u>11,235</u>
<b>Interest receivable and similar income</b>	(223)
	<u>11,012</u>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £000
<b>Current tax</b>	
UK corporation tax charge for the period	-
Overseas tax	1,567
	<hr/>
<b>Total current tax</b>	1,567
<b>Deferred tax</b>	
Origination and reversal of timing differences	358
	<hr/>
Tax on profit on ordinary activities	1,925
	<hr/> <hr/>

The tax assessed for the period is higher than that resulting from applying the standard 30% rate of corporation tax in the UK for the reasons set out in the following reconciliation:

	2003 £000
Profit on ordinary activities before taxation at the UK statutory rate of 30%	1,259
Timing differences:	
Capital allowances in excess of depreciation	248
Losses brought forward utilised	(606)
	<hr/>
	(358)
Impact of trading losses not recognised in deferred tax	217
Depreciation on non-qualifying expenditure including goodwill amortisation	565
Other permanent differences	110
Differences in overseas tax rates	(226)
	<hr/>
Current tax charge	1,567
<b>Deferred tax:</b>	
UK	(248)
Overseas	606
	<hr/>
	1,925
	<hr/> <hr/>

### 7. DIVIDENDS

	2003 £000
<b>Non-equity shares</b>	
10% cumulative 'B' and 0.001% 'C' preference dividends accrued	606
	<hr/> <hr/>

The dividend will not be paid until such time as the Company has the appropriate level of distributable reserves.

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**8. INTANGIBLE FIXED ASSETS**

<b>The Group</b>	<b>Goodwill £000</b>
<b>Cost</b>	
At 17 March 2003	-
Arising on acquisition of Fitness First plc	41,988
Other additions	352
	<hr/>
At 31 October 2003	42,340
	<hr/>
<b>Amortisation</b>	
At 17 March 2003	-
Charge for the period	700
	<hr/>
At 31 October 2003	700
	<hr/>
<b>Net book value</b>	
31 October 2003	41,640
	<hr/>
17 March 2003	-
	<hr/>

Other additions to goodwill (for which cash of £473,000 was paid) relate to the acquisition of unincorporated businesses by subsidiary companies and an increase in the Group's shareholding in an existing subsidiary.

**9. TANGIBLE FIXED ASSETS**

<b>The Group</b>	<b>Land &amp; Buildings £000</b>	<b>Fitness Equipment £000</b>	<b>Furniture, Fittings &amp; Equipment £000</b>	<b>Computer Equipment £000</b>	<b>Motor Vehicles £000</b>	<b>Total £000</b>
<b>Cost</b>						
At 17 March 2003	-	-	-	-	-	-
Acquisitions	335,583	53,797	21,482	5,873	923	417,658
Additions	20,997	4,349	4,709	1,867	153	32,075
Disposals	(517)	(1,445)	(44)	(24)	(78)	(2,108)
Exchange adjustments	(1,727)	(299)	(181)	(68)	(3)	(2,278)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2003	354,336	56,402	25,966	7,648	995	445,347
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>						
At 17 March 2003	-	-	-	-	-	-
Charge for the period	5,123	4,333	1,172	1,129	123	11,880
Disposals	-	(802)	-	(26)	(57)	(885)
Exchange adjustments	(302)	(66)	(38)	(32)	(3)	(441)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2003	4,821	3,465	1,134	1,071	63	10,554
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>						
At 31 October 2003	349,515	52,937	24,832	6,577	932	434,793
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 17 March 2003	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 9. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprises:

	2003 £000
Freehold	72,570
Long leasehold	30,508
Short leasehold	246,437
	<u>349,515</u>

Long leaseholds are those leaseholds with more than 50 years unexpired. Included in land and buildings are properties in the course of construction amounting to £8,853,000.

The net book value of fixed assets includes £16,152,000 in respect of fitness equipment assets held under finance leases and hire purchase contracts.

### 10. FIXED ASSET INVESTMENTS

#### The Group

	Investment in joint venture £000
Acquisition	821
Retained profit for the period	33
At 31 October 2003	<u>854</u>

	2003 £000
Investment in joint venture:	
Share of gross assets	890
Share of gross liabilities	(36)
	<u>854</u>

#### The Company

	Investment in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 17 March 2003	-	-	-
Additions	11,665	4,902	16,567
At 31 October 2003	<u>11,665</u>	<u>4,902</u>	<u>16,567</u>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 10. FIXED ASSET INVESTMENTS (continued)

**Additional information on subsidiary and associated undertakings, and joint venture:**

Name of Company	Country of incorporation or registration	Proportion of ordinary shares held
<b>Principal subsidiaries:</b>		
Fitness Preferred Limited	UK	100% directly
Moray Limited	UK	100% indirectly
Fitness First Limited	UK	89.96% indirectly

Fitness First Limited has the following principal subsidiary and associated undertakings, and joint venture:

Fitness First Clubs Limited	UK	100% directly
Just For Ladies Limited	UK	100% directly
Fitness First Espana	Spain	100% directly
Fitness First Italia S.p.A	Italy	100% (5% indirectly)
Fitness First France SA	France	100% directly
Fitness First Netherlands BV	Holland	100% directly
Fitness Company Freizeitanlagen GmbH	Germany	100% directly
SPORTathlon Holdings Limited	Hong Kong	90% indirectly
Fitness First Australia Pty Limited	Australia	100% directly
Passage Invest NV	Belgium	85% directly

**Associate:**

Fitness First (Hartlepool) Limited	UK	20% directly
------------------------------------	----	--------------

**Joint venture:**

Fitness First Berkeley Limited	UK	50% directly
--------------------------------	----	--------------

All the above companies are engaged in the Group's principal activity with the exception of Fitness Preferred Limited, Moray Ltd and Fitness First Limited, which are holding companies.

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 11. ACQUISITIONS

On 25 June 2003, Moray Limited, a subsidiary of Fitness First Holdings Limited, acquired 89.96% of the share capital of Fitness First Limited (formerly Fitness First Plc) for a consideration of £185,231,000. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £000	Alignment of accounting policies £000		Valuation adjustments £000		Fair value £000
<b>Fixed assets</b>						
Tangible fixed assets	437,675	(2,856)	a	(17,161)	a	417,658
Investments	821	-		-		821
<b>Current assets</b>						
Stock	4,629	-		-		4,629
Debtors	18,226	(3,530)	b	(1,068)	b	13,628
Cash	7,782	-		-		7,782
<b>Liabilities</b>						
Creditors	(45,181)	(2,042)	c	(4,251)	c	(51,474)
Borrowings	(215,638)	-		(2,388)	d	(218,026)
Taxation	(21,111)	2,323	d	4,166	e	(14,622)
Minority interests	(1,152)	-		-		(1,152)
	<u>186,051</u>	<u>(6,105)</u>		<u>(20,702)</u>		<u>159,244</u>
Minority interest at 10.04%						<u>(16,001)</u>
Fair value of net assets acquired						143,243
<b>Less consideration:</b>						
Cash payments for shares				167,036		
Allotment of shares				2,712		
Loan notes *				12,515		
Associated costs				<u>2,968</u>		
						<u>(185,231)</u>
Goodwill acquired						<u>41,988</u>

\*£12,065,000 was subsequently converted into share capital of Fitness First Holdings Limited.

In view of the nature of certain adjustments, estimates have been necessary. Accordingly the above fair values have been identified on a provisional basis.

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**11. ACQUISITIONS (continued)**

**Alignment of accounting policy**

Adjustments have been made to align accounting policies within the Group. The principal adjustments include:

- (a) Treatment of contributions from suppliers as discounts against related assets;
- (b) Recognition of contractual receipts from members on a received basis;
- (c) Deferral of membership fees paid annually in advance and the revision of the impact of lease incentives and accruals for holiday pay; and
- (d) Related taxation on the above adjustments.

**Valuation adjustments**

Valuation adjustments have been made. The principal adjustments include:

- (a) Reassessment of the useful economic lives of certain assets and reduction in carrying value of specific clubs and related assets;
- (b) Provision for bad and doubtful debts;
- (c) Provision for pre-existing staff incentive scheme and additional liabilities ;
- (d) Restatement of debt to fair value; and
- (e) Related taxation on the above adjustments.

A summarised consolidated profit and loss account for the period from the beginning of Fitness First plc's financial year, 1 November 2002, to the date of acquisition, 25 June 2003, is shown below:

	<b>Before goodwill and exceptional items £000</b>	<b>Goodwill amortisation and exceptional items £000</b>	<b>Total £000</b>
Turnover	200,890	-	200,890
Operating profit/(loss)	26,574	(9,963)	16,611
Share of profit of joint venture	39	-	39
Net interest payable	(6,732)	-	(6,732)
Profit/(loss) before taxation	19,881	(9,963)	9,918
Taxation			(5,502)
Minority interest			4,416 (632)
Profit after taxation and minority interest			3,784

Exceptional items of £8,009,000 are included in the £9,963,000 above and comprise principally costs incurred by Fitness First Limited in relation to its acquisition by Fitness First Holdings Limited, £4,478,000, and further fixed asset write offs and restructuring costs consequent upon the action which commenced during 2002.

The statement of total recognised gains and losses for the same period is shown below:

	<b>£000</b>
Profit for the financial period	3,784
Gain on foreign currency translation	3,533
Total recognised gains and losses relating to the period	7,317

The profit after tax and minority interest for the acquired entity for the previous financial year ended 31 October 2002 was £10,375,000.

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 12. STOCKS

	The Group	The Company
	2003	2003
	£000	£000
Goods for resale	5,148	-

### 13. DEBTORS

	The Group	The Company
	2003	2003
	£000	£000
Trade debtors	2,959	-
Amounts owed by subsidiary undertakings	-	5,672
Amounts owed by joint venture and associated undertaking	158	-
Other debtors	1,965	399
Prepayments and accrued income	8,048	-
Value Added Tax	2,673	-
	<u>15,803</u>	<u>6,071</u>

### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group	The Company
	2003	2003
	£000	£000
Bank overdrafts (note 16)	8,953	-
Bank loans (note 16)	29,524	-
Loan from subsidiary undertaking	-	2,733
Obligations under finance leases and hire purchase contracts (note 16)	4,636	-
Trade creditors	24,306	-
Corporation tax	902	-
Other creditors including taxation and Social Security	9,358	-
Accruals and deferred income	37,306	-
	<u>114,985</u>	<u>2,733</u>

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group	The Company
	2003	2003
	£000	£000
Bank loans (note 16)	221,581	-
Shareholder loans (note 16)	124,184	-
Obligations under finance leases and hire purchase contracts (note 16)	5,803	-
Accruals and deferred income	603	-
	<u>352,171</u>	<u>-</u>



# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 16. BORROWINGS

	The Group 2003 £000	The Company 2003 £000
Bank overdrafts	8,953	-
Bank loans	251,105	-
Loan from subsidiary undertaking	-	2,733
Obligations under finance leases and hire purchase contracts	10,439	-
	<u>270,497</u>	<u>2,733</u>
Shareholder loans	124,184	-
	<u>394,681</u>	<u>2,733</u>
Due within one year	43,113	2,733
Due after more than one year	351,568	-
	<u>394,681</u>	<u>2,733</u>

#### Analysis of loan repayments

	Within one year and on demand £000	Between one and two years £000	Between two and five years £000	After five years £000	Total £000
Bank overdrafts	8,953	-	-	-	8,953
Bank loans	29,524	9,403	74,865	137,313	251,105
Obligations under finance leases and hire purchase contracts	4,636	3,688	2,115	-	10,439
	<u>43,113</u>	<u>13,091</u>	<u>76,980</u>	<u>137,313</u>	<u>270,497</u>
Shareholder loans	-	-	-	124,184	124,184
	<u>43,113</u>	<u>13,091</u>	<u>76,980</u>	<u>261,497</u>	<u>394,681</u>

The bank loans are secured by fixed and floating charges over the Group's assets in certain jurisdictions. The finance leases and hire purchase contracts are secured on the assets concerned.

Interest is payable on bank loans at rates based on market interest rates. In addition, financial instruments have been entered into in order to limit the impact of potential fluctuations in such market interest rates in respect of part of the Group's borrowings.

Shareholder loans constitute deep discount bonds (see note 28) which are unsecured obligations of the Group. The mandatory redemption date is 2014. The discount upon issue of the bonds and the carrying value of the Group's liability reflects an inherent interest rate of 10% per annum, compounded annually.

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 17. PROVISIONS FOR LIABILITIES AND CHARGES

#### The Group

	Deferred taxation £000	Other provisions £000	Total £000
At 17 March 2003	-	-	-
Arising on acquisition	14,072	629	14,701
Profit and loss account	358	-	358
Charged directly to the profit and loss reserve	273	-	273
	<hr/>	<hr/>	<hr/>
As at 31 October 2003	14,703	629	15,332
	<hr/>	<hr/>	<hr/>

#### Deferred taxation

##### Provided

Accelerated capital allowances	15,783
Short term timing differences	(45)
Revenue losses	(1,035)
	<hr/>
	14,703
	<hr/>

**The Group  
2003  
£000**

##### Unprovided

Revenue losses	(5,933)
	<hr/>

**The Group  
2003  
£000**

The Group has not recognised the deferred tax asset of £5,933,000 as the tax losses in the jurisdictions concerned are not expected to be utilised within the immediate future. The losses can be utilised against future taxable trading profits in the appropriate jurisdictions.

Other provisions represent amounts recognised on the acquisition of Fitness First Limited in connection with property commitments relating to certain clubs which will be realised over the period of the relevant leases.

The Company has no provisions at the beginning or end of the period.

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 18. CALLED UP SHARE CAPITAL

	Number of shares	Nominal value
	2003	2003
	'000	£000
<b>Authorised</b>		
'A' Ordinary shares of £1 each	750	750
'B' Ordinary shares of £1 each	90	90
'C' Ordinary shares of £1 each	160	160
'D' Ordinary shares of AU\$0.01 each	700	3
10% cumulative 'B' Preference shares of £1 each	17,430	17,430
0.001% cumulative 'C' Preference shares of £1 each	1,440	1,440
	<u>20,570</u>	<u>19,873</u>
 <b>Allotted, called up and fully paid</b>		
	Number of shares	Nominal value
	2003	2003
	'000	£000
'A' Ordinary shares of £1 each	750	750
'B' Ordinary shares of £1 each	90	90
'C' Ordinary shares of £1 each	160	160
10% cumulative 'B' Preference shares of £1 each	17,430	17,430
0.001% cumulative 'C' Preference shares of £1 each	1,440	1,440
	<u>19,870</u>	<u>19,870</u>

All shares were issued during the period to facilitate the acquisition of Fitness First Limited (formerly Fitness First plc).

- i) On 24 June 2003 the Company issued 749,725 A Ordinary shares at a value of £1 per share for cash.
- ii) On 27 June 2003 the Company issued 90,275 B Ordinary shares at a value of £1 per share. This was in exchange for cash consideration of £17,483, Fitness Preferred Limited Loan Notes of £60,413 and Fitness First Limited (formerly Fitness First plc) shares of £12,379.
- iii) On 27 June 2003 the Company issued 101,000 C Ordinary shares at a value of £1 per share. This was in exchange for cash consideration of £36,000, Fitness Preferred Limited Loan Notes of £34,000 and Fitness First Limited (formerly Fitness First plc) shares of £31,000. A further 59,000 C Ordinary shares have been allotted, of which 39,000 remain unpaid at the period end.
- iv) On 27 June 2003 the Company issued 17,430,220 B Preference shares at a value of £1 per share. This was in exchange for cash consideration of £3,375,512, Fitness Preferred Limited Preference shares of £11,664,587 and Fitness First Limited (formerly Fitness First plc) shares of £2,390,121.
- v) On 27 June 2003 the Company issued 909,000 C Preference shares at a value of £1 per share. This was in exchange for cash consideration of £324,000, Fitness Preferred Limited Loan Notes of £306,000 and Fitness First Limited (formerly Fitness First plc) shares of £279,000. A further 531,000 C Preference shares have been allotted, of which 359,100 remain unpaid at the period end.

On 3 November 2003 the 700,000 D Ordinary shares of AU\$0.01 were allotted and issued. The shares were issued in exchange for shares previously held in Fitness First Australia.

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**18. CALLED UP SHARE CAPITAL (continued)**

**Rights to Income and Voting - Ordinary shares**

Each A Ordinary Share, B Ordinary Share and C Ordinary Share rank equally for any dividends paid thereon to be paid pro rata to the Issue Price of each A Ordinary Share, B Ordinary Share and C Ordinary Share. The declaration of and/or payment of dividends on the A Ordinary Shares, B Ordinary Shares and C Ordinary Shares is permitted notwithstanding that there may at the time be accrued but unpaid dividends outstanding on the B Preference Shares and/or the C Preference Shares.

Each A and B Ordinary share carries one vote. C Ordinary shares carry no voting rights.

The D Ordinary Shares confer upon the holders the right to receive a dividend equivalent to a certain percentage of:

- (a) the net amount of any dividends paid by Fitness First Australia to its ordinary shareholders at any time on or after 30 June 2007; plus
- (b) the net amount distributed to ordinary shareholders of Fitness First Australia on winding up of Fitness First Australia.

The D Ordinary Shares do not otherwise confer on the holders thereof any right of participation in the profits of the Company or Group including any right to participate in connection with any dividends paid by Fitness First Australia to its shareholders at any time before 30 June 2007.

The D Ordinary Shares carry no voting rights.

**Rights to income and voting - Preference shares**

*In respect of each accounting reference period of the Company the B Preference Shares confer upon the holders thereof (as a class) the right to receive on each B Preference Share, in priority to any payment by way of dividend to the holders of any other shares in the capital of the Company (but subject to the payment of all dividends accrued and in arrears on the B Preference Shares in respect of any earlier accounting reference period), the B Fixed Dividend. At 31 October 2003 the dividend accrued was £606,476.*

*In respect of each accounting reference period of the Company the C Preference Shares confer upon the holders thereof (as a class) the right to receive on each C Preference Share, in priority to any payment by way of dividend to the holders of any other shares in the capital of the Company (but subject to the payment of all dividends accrued and in arrears on the C Preference Shares and the B Preference Shares in respect of any earlier accounting reference period), the C Fixed Dividend. At 31 October 2003 the dividend accrued was £3.*

B Preference shares and C Preference shares carry no voting rights.

**Rights to Capital**

On a return of capital on liquidation, reduction of capital or otherwise, the surplus assets of the Company remaining after payment of its liabilities shall be applied in the following order of priority:

1. in paying all unpaid dividends due on the D Class Shares;
2. in paying pro rata the holders of the B Preference Shares all unpaid arrears and accruals of any B Fixed Dividend;
3. in paying pro rata to the holders of the B Preference Shares, the Issue Price (meaning, in respect of a share in the capital of the Company, the amount paid up, or credited as paid up, in respect of the nominal value thereof and any share premium thereon) of such shares;
4. in paying pro rata the holders of the C Preference Shares all unpaid arrears and accruals of any C Fixed Dividend;
5. in paying pro rata to the holders of the C Preference Shares, the Issue Price of such shares; and
6. in distributing the balance amongst the holders of the A, B and C Ordinary Shares pro rata to the amounts paid up or credited as paid up on such shares as if they were all shares of the same class.

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 18. CALLED UP SHARE CAPITAL (continued)

#### Non equity shareholders' funds

The total amount of non equity Shareholders' funds may be analysed as follows:	<b>2003 £000</b>
Attributable to B preference shares	18,036
Attributable to C preference shares	1,440
	<u>19,476</u>

### 19. RESERVES

	Other reserve £000	Profit and loss account £000
<b>The Group</b>		
At 17 March 2003	-	-
Profit for the financial period	-	1,455
Accrued dividend	606	(606)
Currency translation differences	-	(757)
	<u>606</u>	<u>92</u>
At 31 October 2003	<u>606</u>	<u>92</u>
	Other reserve £000	Profit and loss account £000
<b>The Company</b>		
At 17 March 2003	-	-
Profit for the financial period	-	226
Accrued dividend	606	(606)
	<u>606</u>	<u>(380)</u>
At 31 October 2003	<u>606</u>	<u>(380)</u>

The other reserve relates to the cumulative preference share dividends accrued which have been taken to another reserve until such time as the Company has sufficient distributable reserves to pay these dividends.

### 20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>2003 £000</b>
<b>Operating profit</b>	14,578
Depreciation	11,880
Goodwill amortisation	700
Loss on disposal of fixed assets	196
Increase in stocks	(519)
Increase in debtors	(1,725)
Increase in creditors	11,097
Exceptional items	958
	<u>37,165</u>
Net cash inflow from operating activities	<u>37,165</u>

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**21. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT**

	<b>2003</b>
	<b>£000</b>
<b>Returns on investments and servicing of finance</b>	
Interest received	223
Interest paid	(5,661)
Interest element of finance lease rental payments	(214)
	<hr/>
	(5,652)
<b>Taxation</b>	
Corporation tax paid	(1,215)
	<hr/>
<b>Capital expenditure</b>	
Payments to acquire tangible fixed assets	(21,411)
Receipts from sales of tangible fixed assets	997
	<hr/>
	(20,414)
<b>Acquisitions and disposals</b>	
Payments to acquire subsidiary	(170,004)
Cash acquired with subsidiary	7,782
Overdraft acquired with subsidiary	(6,685)
Other acquisitions	(473)
	<hr/>
	(169,380)
	<hr/>
	<b>2003</b>
	<b>£000</b>
<b>Financing</b>	
Issue of share capital	4,694
Debt due within one year:	
Repayment of acquired bank loans	(11,964)
New bank loans	29,524
Debt due after more than one year:	
Repayment of acquired bank loans	(187,445)
New bank loans	220,070
New shareholder loans	119,921
Capital element of finance lease rental payments	(1,540)
	<hr/>
	173,260
	<hr/>

# FITNESS FIRST HOLDINGS LIMITED AND SUBSIDIARIES

## NOTES TO THE ACCOUNTS

Period from 17 March 2003 to 31 October 2003

### 21. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT (continued)

The subsidiary undertakings acquired during the period contributed the following to the Group's cash flows:

	2003 £000
Net cash inflow from operating activities	53,689
Returns on investments and servicing of finance	(4,588)
Taxation	(1,201)
Capital expenditure	(20,414)
Financing	(22,787)
Net increase in cash	<u>4,699</u>

### 22. ANALYSIS OF NET DEBT

	At 17 March 2003 £000	Acquisition £000	Cash flow £000	Other non cash changes £000	At 31 Oct 2003 £000
Cash at bank and in hand	-	-	22,717	(25)	22,692
Bank overdrafts	-	-	(8,953)	-	(8,953)
	<u>-</u>	<u>-</u>	<u>13,764</u>	<u>(25)</u>	<u>13,739</u>
<b>Debt due after one year</b>					
Shareholder loans	-	-	(119,921)	(4,263)	(124,184)
Other	-	(187,445)	(32,625)	(1,511)	(221,581)
<b>Debt due within one year</b>					
Shareholder loans	-	-	-	-	-
Other	-	(11,964)	(17,560)	-	(29,524)
Finance leases and hire purchase contracts	-	(11,932)	1,540	(47)	(10,439)
<b>Total net debt</b>	<u>-</u>	<u>(211,341)</u>	<u>(154,802)</u>	<u>(5,846)</u>	<u>(371,989)</u>

### 23. CAPITAL COMMITMENTS

	The Group 2003 £000	The Company 2003 £000
Contracted for but not provided	<u>9,722</u>	<u>-</u>

**NOTES TO THE ACCOUNTS**

**Period from 17 March 2003 to 31 October 2003**

**24. OPERATING LEASE COMMITMENTS**

At 31 October 2003 the Group was committed to making the following payments during the next year in respect of operating leases:

	<b>Land and buildings 2003 £000</b>	<b>Other 2003 £000</b>
<b>Leases which expire:</b>		
Within one year	2,362	498
Within two to five years	8,253	1,974
After five years	15,179	-
	<u>25,794</u>	<u>2,472</u>

**25. CONTINGENT LIABILITIES**

At 31 October 2003 various subsidiaries of the Company benefited from bank guarantees in respect of rental obligations totalling £8,860,000.

**26. PENSION SCHEMES**

There is no Group pension scheme although the Group does make contributions on behalf of certain Directors and employees in respect of personal pension arrangement together with contributions under defined contribution schemes relating to certain of the Group's subsidiary undertakings, which are disclosed in note 3.

**27. ULTIMATE CONTROLLING PARTY**

The directors consider that the Company is ultimately owned and controlled by funds managed by Cinven Limited which own shares representing 76% of the issued Ordinary share capital.

**28. RELATED PARTY TRANSACTIONS**

During the period the Group incurred fees of £67,000 payable to Cinven Limited, the ultimate controlling party. The balance accrued by the Group at 31 October 2003 in respect of these fees was £17,000.

During the period the Group issued deep discount bonds to funds managed by Cinven Limited. The net proceeds of the issue amounted to £119,921,000 and finance charges arising in the period ended 31 October 2003 are £4,263,000.

**29. POST BALANCE SHEET EVENTS**

On 21 November 2003 a subsidiary undertaking, Fitness First Limited, disposed of its interest in the associated undertaking Fitness First (Hartlepool) Limited for nil consideration.

On 24 February 2004 a subsidiary undertaking, Fitness First Limited, acquired the remaining 50% of the issued share capital of Fitness First Berkeley Limited from The Berkeley Group Plc for a consideration of £500,000.

Since the year end the Group has entered into sale and leaseback transactions in relation to eleven UK properties. The total sale proceeds were £23.5 million resulting in a profit on disposal of £8.3 million.