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PACIFIC HEALTH AND FITNESS LIMITED

REPORT AND FINANCIAL STATEMENTS

30th SEPTEMBER 1997



Pacific Health and Fitness Limited**Directors**

J.M. Lyras
A.R. Barker

Secretary and Registered Office

Cornhill Secretaries Limited
24-26 Baltic Street, London, EC1Y ORD

Auditors

Moore Stephens
Chartered Accountants
St. Paul's House, Warwick Lane, London, EC4P 4BN

Report of the Directors

The directors present their report and audited financial statements for the year ended 30th September 1997.

Review of Activities

The company is engaged in the ownership and operation of a high quality private health and fitness club. The club opened on 18th December 1995, and has operated at full membership capacity since October 1996.

Results and Dividends

The profit for the financial year amounted to £561,970. It is recommended that this be transferred to reserves.

The directors do not recommend the payment of a dividend.

Fixed Assets

Movements in fixed assets are set out in note 7.

Directors' Interests

None of the directors had any interest, as defined by the Companies Act 1985, either at the beginning or end of the year.

Auditors

The auditors, Moore Stephens are willing to continue in office. A resolution for their re-appointment and authorising the directors to fix their remuneration will be submitted to the annual general meeting.

By Order of the Board


CORNHILL SECRETARIES LIMITED

Secretary

Pacific Health and Fitness Limited**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 the company and of the profit or loss of the company 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 records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Report of the Auditors to the Members of
Pacific Health and Fitness Limited**

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective Responsibilities of Directors and Auditors

As described on page 2 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 misstatements, 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 at 30th September 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

St. Paul's House,
London, EC4P 4BN

15 JAN 1998


MOORE STEPHENS

Chartered Accountants
Registered Auditor

Pacific Health and Fitness Limited**Profit and Loss Account
For the Year Ended 30th September 1997**

	<u>Note</u>	<u>1997</u>	<u>1996</u>
		£	£
Turnover		2,467,876	1,519,540
Administration expenses		(1,592,850)	(1,201,636)
Operating profit	2	875,026	317,904
Interest receivable		27,565	12,807
Interest payable and similar charges	5	(242,574)	(266,648)
Profit on Ordinary Activities before Taxation		660,017	64,063
Taxation on ordinary activities	6	98,047	-
Profit for the Year		£ 561,970	£ 64,063

There are no recognised gains or losses other than those disclosed in the profit and loss account.

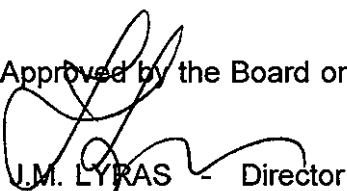
Summary of Profit and Loss Account

At 1st October 1997	(302,579)	(366,642)
Profit for the year	561,970	64,063
At 30th September 1997	£ 259,391	£ (302,579)

Pacific Health and Fitness Limited**Balance Sheet at 30th September 1997**

	<u>Note</u>	<u>1997</u>		<u>1996</u>	
		£	£	£	£
Fixed Assets	7		4,162,022		4,230,063
Current assets					
Stock		9,459		5,823	
Debtors	8	9,131		7,765	
Cash at bank		368,519		380,524	
		387,109		394,112	
Creditors, amounts falling due within one year	9	(564,240)		(513,400)	
Net Current Liabilities			(177,131)		(119,288)
Total Assets Less Current Liabilities			3,984,891		4,110,775
Creditors, amounts falling due after more than one year	10		(3,632,500)		(4,412,354)
Provision for Liabilities and Charges	11		(92,000)		-
			£ 260,391		£ (301,579)
Capital and Reserves					
Called up equity share capital	12		1,000		1,000
Profit and loss account			259,391		(302,579)
Equity shareholders' funds			£ 260,391		£ (301,579)

Approved by the Board on

15 JAN 1998


J.M. LYRAS - Director

Pacific Health and Fitness Limited**Financial Statements
For the Year Ended 30th September 1997****Notes****1. Principal Accounting Policies****(a) Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Deferred taxation

Provision for deferred tax is made on all timing differences using the liability method.

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis over the anticipated useful economic lives of the assets concerned at the following rates:

Freehold land	Nil
Buildings	2% per annum
Fixtures and fittings	20% per annum
Catering/office equipment	20% per annum
Fitness equipment	20% per annum
Weights equipment	12.5% per annum
Computer equipment	25% per annum

(d) Turnover

Turnover represents joining fees, subscriptions and goods and services sold excluding value added tax. Income from joining fees is recognised when received and subscriptions are accounted for on an accruals basis.

(e) Stock

Stock is stated at the lower of cost and net realisable value.

2. Operating profit

	<u>1997</u>	<u>1996</u>
Operating profit is stated after incorporating:	£	£
Directors' emoluments	74,583	39,154
Auditors' remuneration	14,326	8,048
Depreciation	182,995	143,512
	<u> </u>	<u> </u>

Pacific Health and Fitness Limited**Financial Statements
For the Year Ended 30th September 1997****Notes (Continued)****3. Directors and Employees**

Directors' emoluments:

Staff costs include the following emoluments in respect of directors of the company:-

Other emoluments	£ 74,583	£ 39,154
	<u> </u>	<u> </u>
Average number of employees	46	40
	<u> </u>	<u> </u>

4. Staff Costs

Staff costs during the year were as follows:-

Wages and salaries	623,409	465,814
Social security costs	55,341	40,246
Other staff costs	97,449	65,089
	<u> </u>	<u> </u>
	£ 776,199	£ 571,149
	<u> </u>	<u> </u>

5. Interest Payable

On bank loan	£ 242,574	£ 266,648
	<u> </u>	<u> </u>

6. Taxation on Ordinary Activities

U.K corporation tax	11,000	-
Deferred taxation	92,000	-
Overprovision in prior years	(4,953)	-
	<u> </u>	<u> </u>
	£ 98,047	£ Nil
	<u> </u>	<u> </u>

Pacific Health and Fitness Limited

Financial Statements
For the Year Ended 30th September 1997

Notes (Continued)

7. Tangible Fixed Assets

	<u>Land and Buildings</u>	<u>Fixtures Fittings and Equipment</u>	<u>Fitness Equipment</u>	<u>Total</u>
Cost				
At 1st October 1996	3,826,699	287,511	259,365	4,373,575
Additions	57,374	48,294	9,286	114,954
At 30th September 1997	<u>3,884,073</u>	<u>335,805</u>	<u>268,651</u>	<u>4,488,529</u>
Depreciation				
At 1st October 1996	63,558	45,549	34,405	143,512
Charge for year	64,706	70,601	47,688	182,995
At 30th September 1997	<u>128,264</u>	<u>116,150</u>	<u>82,093</u>	<u>326,507</u>
Net book value				
At 30th September 1997	<u>3,755,809</u>	<u>219,655</u>	<u>186,558</u>	<u>4,162,022</u>
At 30th September 1996	<u>3,763,141</u>	<u>241,962</u>	<u>224,960</u>	<u>4,230,063</u>

8. Debtors

	<u>1997</u>	<u>1996</u>
Trade debtors	-	1,132
Due by group undertaking	2,814	-
Other debtors	435	1,690
Prepayments and accrued income	5,882	4,943
	<u>£ 9,131</u>	<u>£ 7,765</u>

9. Creditors, amounts falling due within one year

	<u>1997</u>	<u>1996</u>
Bank loan (secured)	233,750	233,750
Trade creditors	116,392	57,350
Corporation tax	11,000	4,953
Other creditors	24,167	59,256
Other taxes and social security	15,130	13,586
Accruals and deferred income	163,801	144,505
	<u>£ 564,240</u>	<u>£ 513,400</u>

Pacific Health and Fitness Limited**Financial Statements
For the Year Ended 30th September 1997****Notes (Continued)****10 Creditors, amounts falling due after more than one year**

	<u>1997</u>	<u>1996</u>
Bank loan		
Due within 1-2 years	233,750	233,750
within 2-5 years	701,250	701,250
after 5 years	1,897,500	2,131,250
	<hr/>	<hr/>
	2,832,500	3,066,250
Due to parent company	800,000	1,346,104
	<hr/>	<hr/>
	£ 3,632,500	£ 4,412,354
	<hr/>	<hr/>

The bank loan is secured on freehold property and is repayable by 2nd August 2004, by instalments and carries a variable commercial rate of interest.

The amount due to parent company is interest free and there are no fixed terms of repayment.

11. Provision for Liabilities and Charges

The movements on provision accounts are as follows:

	<u>Deferred Taxation</u>
At 1st October 1996	-
Charge for the year	92,000
	<hr/>
At 30th September 1997	£ 92,000
	<hr/>

The total potential liability for deferred taxation is £92,000 (1996 - Nil).

Pacific Health and Fitness Limited

Financial Statements
For the Year Ended 30th September 1997

Notes (Continued)**12. Called Up Equity Share Capital**

	<u>1997</u>		<u>1996</u>
Authorised			
10,000 shares of £1 each	£ 10,000	£	10,000
	<u> </u>		<u> </u>
Called up and fully paid			
1,000 equity shares of £1 each	£ 1,000	£	1,000
	<u> </u>		<u> </u>

13. Ultimate Holding Company

The directors regard Ocean Spirit Limited which is incorporated in Jersey (Channel Islands) as the ultimate holding company.