

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this document, which comprises a prospectus prepared in accordance with the listing rules made under section 74(4) of the Financial Services and Markets Act 2000, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 85 of that Act.

If you have sold or otherwise transferred all of your Ordinary Shares in Fitness First Plc prior to the "ex" date, please send this document, together with the accompanying Form of Proxy and, if appropriate, the Application Form, to the purchaser or transferee, or to the bank, stockbroker or other agent through or to whom the sale or transfer was effected, for delivery to the purchaser of transferee. Such documents should not be forwarded or transmitted in or into the United States, Canada, Australia, the Republic of Ireland or Japan. If you have sold or otherwise transferred part of your registered holding of Ordinary Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

Applications have been made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange's markets for listed securities. It is expected that such admission will take place, and that dealings in the New Ordinary Shares will commence, on 26 February 2002.



Fitness First Plc



(Incorporated in England and Wales under the Companies Act 1985 with registered number 3075946)

Placing of 18,750,000 New Ordinary Shares at 412p per share and Open Offer of 9,197,101 of those New Ordinary Shares at 412p per share on the basis of one New Ordinary Share for every ten existing Ordinary Shares



Investec
Henderson Crosthwaite

Underwritten by



Dresdner Kleinwort Wasserstein

The latest time for acceptance and payment in full under the Open Offer is at 3.00 p.m. on 21 February 2002. The procedure for acceptance and payment is set out in paragraph 3 of Part 3 of this document and in the accompanying Application Form. Application Forms must be completed by Qualifying Shareholders and returned with the appropriate remittance so as to reach the New Issues Department, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH, as soon as possible and in any event no later than 3.00 p.m. on 21 February 2002.

None of the Ordinary Shares or the New Ordinary Shares has been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of Canada, Australia, the Republic of Ireland or Japan and they may not, subject to certain exceptions, be offered or sold directly or indirectly within the United States, Canada, Australia, the Republic of Ireland or Japan or to, or for the account or benefit of any national, citizen or resident of the United States, Canada, Australia, the Republic of Ireland or Japan. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

Fitness First Plc reserves the right to invite a limited number of Shareholders in the United States to apply for New Ordinary Shares who may qualify as an institutional "accredited investor" as defined in Rule 501(a) under the Securities Act, under restrictions designed to preclude a distribution which would require registration of such New Ordinary Shares under the Securities Act and otherwise to ensure compliance with the laws of the United States. New Ordinary Shares acquired by qualifying investors in the United States will be deemed "restricted securities" under the Securities Act and subject to restrictions on re-sale and transfer.

Notice of an Extraordinary General Meeting of Fitness First Plc to be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA at 10.30 a.m. on 25 February 2002 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting which, to be valid, must be completed and returned so as to be received by Capita IRG Plc, not later than 10.30 a.m. on 23 February 2002. Completion and return of the Form of Proxy will not preclude Shareholders from attending the meeting and voting in person should they subsequently wish to do so.

Investec Henderson Crosthwaite, a division of Investec Bank (UK) Limited, and Dresdner Kleinwort Wasserstein Limited, who are authorised by the Financial Services Authority Limited, are acting for Fitness First Plc in connection with the Placing and the Open Offer and are not acting for any person other than Fitness First Plc and will not be responsible to any person other than Fitness First Plc for providing the protections afforded to their customers or for providing advice to any other person in connection with the Placing and the Open Offer.

31/01/02

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record date for the Open Offer	28 January 2002
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 19 February 2002
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 p.m. on 21 February 2002
Latest time and date for receipt of Forms of Proxy for the EGM	10.30 a.m. on 23 February 2002
Extraordinary General Meeting	10.30 a.m. on 25 February 2002
Admission and commencement of dealings in New Ordinary Shares	26 February 2002
CREST accounts credited for the New Ordinary Shares	26 February 2002
Annual General Meeting	12.00 noon on 4 March 2002
Definitive share certificates in respect of New Ordinary Shares held in certificated form to be despatched	by 5 March 2002

DIRECTORS, SECRETARY AND ADVISERS

Directors	Christopher D J Pearce (<i>Chairman</i>) Michael W Balfour (<i>Chief Executive</i>) Nigel R Cartwright (<i>International Operations Director</i>) Colin C Child (<i>Finance Director</i>) Malcolm S Guscott (<i>Property Director</i>) Sean V Phillips (<i>Sales and Fitness Director</i>) E John Denning (<i>Non-Executive Director</i>) Walter K Goldsmith (<i>Non-Executive Director</i>) all of: 58 Fleets Lane, Poole, Dorset BH15 3BT	
Secretary	S A Cadd	
Registered and Head Office	58 Fleets Lane, Poole, Dorset BH15 3BT	
Joint Financial Advisers and Stockbrokers	Investec Henderson Crosthwaite 2 Gresham Street London EC2V 7QP	Dresdner Kleinwort Wasserstein 20 Fenchurch Street London EC3P 3DB
Auditors	Deloitte & Touche Mountbatten House 1 Grosvenor Square Southampton SO15 2BZ	
Solicitors to the Company	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA	
Solicitors to the Issue	Slaughter and May 35 Basinghall Street London EC2V 5DB	Kirkland & Ellis (as to US law) 25 Old Broad Street London EC2N 1HQ
Principal Bankers	Royal Bank of Scotland Plc 135 Bishopsgate London EC2M 3UR	Dresdner Bank AG Riverbank House 2 Swan Lane London EC4R 3UX
	HSBC Bank Plc 27-32 Poultry London EC2P 2BX	
Registrar	Capita IRG Plc Balfour House 390-398 High Road Ilford Essex IG1 1NQ	
Receiving Agents	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TH	

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the New Ordinary Shares to listing on the Official List and trading on the London Stock Exchange’s markets for listed securities
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Application Form”	the application form accompanying this document for use by Qualifying Shareholders in relation to the Open Offer
“Board” or “Directors”	the directors of the Company as at the date of this document, whose names appear on page 3 of this document
“CAGR”	compound annual growth rate
“Company” or “Fitness First”	Fitness First Plc
“CREST”	the relevant system (as defined in the Uncertified Securities Regulations 1995) in respect of which CRESTCo Limited is the operator for the purposes of such Regulations
“Dresdner Kleinwort Wasserstein”	Dresdner Kleinwort Wasserstein Limited
“existing Ordinary Shares”	the 96,472,610 Ordinary Shares in issue at the date of this document
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at 10.30 a.m. on 25 February 2002, notice of which is set out at the end of this document
“Firm Placed Shares”	9,552,899 New Ordinary Shares which have been placed firm by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein
“Firm Placing”	the conditional placing by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein of the Firm Placed Shares on behalf of the Company pursuant to the Placing and Open Offer Agreement
“Form of Proxy”	the form of proxy for use by Shareholders in connection with the Extraordinary General Meeting
“Group”	Fitness First, its subsidiaries and its associated undertakings as at the date of this document
“Investec”	Investec Bank (UK) Limited
“Investec Henderson Crosthwaite”	Investec Henderson Crosthwaite, a division of Investec
“Issue Price”	412p per New Ordinary Share
“Listing Rules”	the rules and regulations made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000, as amended from time to time
“London Stock Exchange”	London Stock Exchange Plc
“New Ordinary Shares”	the 18,750,000 new Ordinary Shares of 12.5p each to be issued by the Company pursuant to the Placing and the Open Offer
“Official List”	the Official List of the UK Listing Authority
“Open Offer”	the conditional open offer being made by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, as agents for the Company, to Qualifying Shareholders to subscribe for the Open Offer Shares at the Issue Price and on the terms and conditions set out in this document and in the Application Form

“Open Offer Shares”	9,197,101 New Ordinary Shares which have been conditionally placed (subject to clawback to satisfy valid applications by Qualifying Shareholders) by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein pursuant to the Placing and Open Offer Agreement
“Ordinary Shares”	ordinary shares of 12.5p each in the capital of the Company
“Overseas Shareholders”	Shareholders who are resident in, or citizens of, countries other than the UK
“Placing”	the conditional placing by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein on behalf of the Company of the New Ordinary Shares at the Issue Price
“Placing and Open Offer Agreement”	the agreement dated 31 January 2002 between (1) the Company and (2) Investec Henderson Crosthwaite and (3) Dresdner Kleinwort Wasserstein relating to the Placing and the Open Offer, the principal terms of which are summarised in paragraph 8 of Part 6 of this document
“Qualifying Shareholders”	Shareholders on the register of members of Fitness First on the Record Date (except for certain overseas Shareholders as described in Part 3 of this document)
“Record Date”	the record date for the Open Offer, being the close of business on 28 January 2002
“Receiving Agent”, “Registrars” or “Capita IRG”	Capita IRG Plc
“Resolutions”	the resolutions to be proposed at the EGM, as set out in the notice of EGM at the end of this document
“Securities Act”	the US Securities Act of 1933, as amended
“Shareholder(s)”	holder(s) of Ordinary Shares
“Share Option Schemes”	the Company’s 1996 Executive Share Option Scheme and the Company’s 2000 Approved Share Option Scheme
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purpose of Part IV of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US” or “USA”	the United States of America, its territories and possessions, any state of the United States of America and District of Columbia and all other areas subject to its jurisdiction

PART 1

LETTER FROM THE CHAIRMAN OF FITNESS FIRST PLC



(Incorporated in England and Wales under the Companies Act 1985 with registered number 3075946)

Directors:

Christopher D J Pearce (Chairman)
Michael W Balfour (Chief Executive)
Nigel R Cartwright (International Operations Director)
Colin C Child (Finance Director)
Malcolm S Guscott (Property Director)
Sean V Phillips (Sales and Fitness Director)
E John Denning (Non-Executive Director)
Walter K Goldsmith (Non-Executive Director)

Registered office:

58 Fleets Lane
Poole
Dorset
BH15 3BT

To Qualifying Shareholders and, for information only, to the holders of options over Ordinary Shares

31 January 2002

Dear Shareholder

Placing of 18,750,000 New Ordinary Shares at 412p per share and Open Offer of 9,197,101 of those New Ordinary Shares at 412p per share on the basis of one New Ordinary Share for every ten existing Ordinary Shares

1. Introduction

The Company announced earlier today that it proposes to raise approximately £77.25 million (£75 million net of expenses) through the Placing and the Open Offer. The purpose of this document is to set out the background to and reasons for the Placing and the Open Offer, to explain why your Board considers them to be in the best interests of the Company and Shareholders and to recommend that you vote in favour of the Resolutions.

The Placing and the Open Offer are conditional, *inter alia*, on the passing of the first of the Resolutions to be proposed at the EGM, notice of which is set out at the end of this document.

2. Information on Fitness First

Fitness First is one of the leading operators of fitness clubs in the world, with operations in the UK, continental Europe, the Far East and Australia. As at 31 October 2001, the Group operated 200 clubs, 100 of which were in the UK, and had over 400,000 members. As at the date of this document, the number of clubs has increased to 225 and membership to over 500,000. The Group operates high quality, well-equipped, value-for-money fitness clubs targeting the mid-market segment of the health club industry.

Since its flotation in 1996, the Company has demonstrated considerable growth in numbers of clubs and members, as detailed in the table below:

	1996	1997	October 1998	1999	2000	2001	CAGR
Clubs	6	14	33	62	115	200	102%
Members	12,000	24,000	64,000	127,000	237,000	440,000	104%

Further information on the Company's history and operations is set out in Part 2 of this document.

3. Background to, and reasons for, the Placing and the Open Offer

The funds received by the Company from the Placing and the Open Offer will allow it to maintain the rollout of its health clubs in the UK and internationally. The Directors believe that this will allow the Group to consolidate its position as one of the leading health club operators in the world.

With the net proceeds of the Placing and the Open Offer, combined with the existing debt facilities, the Board plans to open 80 clubs in the year ending 31 October 2002 and a similar number in the year ending 31 October 2003. By 31 October 2003, the Board believes that the Group will have approximately 360 clubs open, of which around 200 will be outside the UK.

The Company announced on 25 October 2001 that it had arranged an additional £80 million in unsecured bank facilities, bringing the total borrowed funds available to Fitness First to in excess of £180 million. As at 31 December 2001, the Group had outstanding borrowed funds of approximately £135 million. The Board believes that the Company's financing arrangements should consist of an appropriate balance of debt and equity. It is intended that the proceeds of the Placing and the Open Offer, together with the existing debt facilities, will finance the Group's continued expansion plans. Pending such use, the net proceeds of the Placing and the Open Offer will be placed on deposit by the Company.

4. Final results to 31 October 2001

The Company made a preliminary announcement of its final results for the year ended 31 October 2001 earlier today and the report and accounts for that period are also being despatched to Shareholders today. The full text of the Chairman's Statement and the Chief Executive's Review is set out in Part 4 of this document and the audited financial information extracted from the annual report and accounts forms part of the comparative table on Fitness First, as set out in Part 5 of this document.

5. Current trading and prospects

As stated in the preliminary results announcement released earlier today, the Group continues to trade strongly in each of the markets in which it operates fitness clubs with increases in both club numbers and members having been recorded since the financial year end. Further details relating to current trading are set out in the Chairman's Letter and Chief Executive's Review as extracted from the preliminary announcement set out in Part 4 of this document.

Given the current trading of the Group and the strategy for expansion of the Group through the rollout of the business model set out in Part 2 of this document, the Directors believe that the prospects for the Group are most encouraging.

6. The Placing and the Open Offer

The Company is proposing to raise approximately £77.25 million (before expenses) by the issue of 18,750,000 New Ordinary Shares pursuant to the Placing and the Open Offer. 9,552,899 New Ordinary Shares have been placed firm at the Issue Price with institutional and certain other investors pursuant to the Firm Placing and are not being offered to Shareholders under the Open Offer whilst the remainder, being 9,197,101 New Ordinary Shares, have been conditionally placed at the Issue Price with institutional and certain other investors, but are subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer. The Placing and the Open Offer have been fully underwritten by Investec and Dresdner Kleinwort Wasserstein.

Qualifying Shareholders are being given the opportunity to subscribe under the Open Offer for the New Ordinary Shares at the Issue Price *pro rata* to their existing shareholdings on the basis of

one New Ordinary Share for every ten existing Ordinary Shares

held at the close of business on the Record Date and so in proportion for any other number of existing Ordinary Shares then held. Entitlements to Open Offer Shares will be rounded down to the nearest whole number of Open Offer Shares. Fractional entitlements to Open Offer Shares will not be allotted and will be aggregated and placed for the benefit of the Company. The Open Offer Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared or paid thereon following Admission. No temporary documents of title will be issued.

Shareholders should note that the Open Offer is not a rights issue. Entitlements under the Open Offer are not transferable unless to satisfy *bona fide* market claims and the Application Form, not being a document of title, cannot be traded. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of

Qualifying Shareholders who do not apply under the Open Offer, but will be subscribed for the benefit of the Company at the Issue Price.

Irrevocable undertakings have been obtained from Christopher Pearce, Michael Balfour and Malcolm Guscott and certain other Shareholders not to take up their entitlements under the Open Offer of in aggregate 1,487,990 Open Offer Shares, together representing approximately 1.29 per cent. of the enlarged issued share capital of the Company. Such Open Offer Shares will be placed firm by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, pursuant to their obligations under the Placing and Open Offer Agreement.

Nigel Cartwright, John Denning, Walter Goldsmith and Sean Phillips have indicated their intentions to take up their entitlements under the Open Offer of, in aggregate, 112,491 Open Offer Shares.

Colin Child, the Group's Finance Director, has indicated his intention to acquire 25,000 New Ordinary Shares in the Firm Placing at the Issue Price. At present Colin Child does not hold any Ordinary Shares.

Colin Child will be granted options over 200,000 Ordinary Shares under the Company's Unapproved Share Option Scheme at an exercise price equal to the closing price, to be derived from the London Stock Exchange's Daily Official List at the close of trading today.

Applications have been made to the UK Listing Authority and to the London Stock Exchange for the admission of all the New Ordinary Shares to (i) listing on the Official List; and (ii) trading on the London Stock Exchange's markets for listed securities. It is expected that Admission will take place, and that dealings in the New Ordinary Shares will commence, on 26 February 2002.

The Placing and the Open Offer are conditional, *inter alia*, upon:

- (a) the passing of the first of the Resolutions;
- (b) the obligations to make the Placing under the Placing and Open Offer Agreement becoming unconditional, save for Admission, by no later than 26 February 2002 (or such later date, being no later than 5 March 2002, as the Company, Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein may agree) and that agreement not having been terminated in accordance with its terms; and
- (c) Admission.

Full details of the Open Offer, including the procedure for application and payment, are set out in Part 3 of this document and in the Application Form. To be valid, Application Forms must be received by Capita IRG by no later than 3.00 p.m. on 21 February 2002.

7. Taxation

Your attention is drawn to paragraph 7 of Part 6 of this document which contains information regarding UK taxation in relation to the Placing and the Open Offer. **If you are in any doubt as to your taxation position you should consult your own professional adviser.**

8. Overseas Shareholders

The attention of Overseas Shareholders is drawn to the additional information section set out in paragraph 6 of Part 3 of this document.

9. Extraordinary General Meeting

A notice of the Extraordinary General Meeting to be held at 10.30 a.m. on 25 February 2002 at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA is set out at the end of this document. At this meeting, the Resolutions will be proposed which, if passed, will:

- (i) authorise the Directors to allot the New Ordinary Shares;
- (ii) disapply Shareholders' statutory pre-emption rights in relation to the Placing and the Open Offer;

- (iii) increase the nominal authorised share capital of the Company from £15,270,000 to £19,880,000 by the creation of 36,880,000 Ordinary Shares and grant the Directors a general authority pursuant to Section 80 of the Act to allot 38,360,000 of such shares. The purpose of the increase is to create sufficient additional share capital to issue the New Ordinary Shares and to have a balance of authorised but unissued Ordinary Shares to satisfy, *inter alia*, the exercise of outstanding options under the Share Option Schemes; and
- (iv) disapply the statutory pre-emption provisions of Section 89 of the Act so as to empower the Directors to issue Ordinary Shares for cash otherwise than *pro rata* to existing shareholders in certain limited circumstances, namely, either in connection with a rights issue or otherwise up to a maximum nominal amount of £720,141, representing approximately five per cent. of the enlarged issued share capital of the Company.

Following the Placing and the Open Offer and assuming the passing of all of the Resolutions, 38,360,000 Ordinary Shares (disregarding those shares reserved for issue on the exercise of options outstanding under the Share Option Schemes) will remain authorised for issue but unissued, representing approximately one third of the enlarged issued ordinary share capital of the Company. The Directors will exercise the authority referred to in (iii) above only where they are satisfied that it is in the interests of the Company to do so. The Directors have no present intention of exercising any authority to allot further Ordinary Shares except in connection with the Placing and the Open Offer, and on the exercise of share options outstanding under the Share Option Schemes.

10. Further information

Your attention is drawn to the additional information on the Placing and the Open Offer and the Group in Parts 2 to 6 of this document.

11. Action to be taken

In respect of the Open Offer

The action to be taken in respect of the Open Offer is set out under the paragraph headed "Procedure for application" in the letter from Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, which comprises Part 3 of this document, and in the enclosed Application Form. The Application Form should be returned along with the appropriate payment in full for the Open Offer Shares applied for to be received, by post or by hand (during normal business hours), by the New Issues Department, Capita IRG Plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH by no later than 3.00 p.m. on 21 February 2002. A reply-paid envelope is enclosed for this purpose.

In respect of the Extraordinary General Meeting

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at that meeting, you are requested to complete, sign and return the Form of Proxy to the Company's registrars, Capita IRG Plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1BR as soon as possible, and in any event so as to arrive no later than 10.30 a.m. on 23 February 2002. The completion and return of the Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person should you wish to do so.

12. Recommendation

Your Board considers that the Placing and the Open Offer are in the best interests of Fitness First and Shareholders as a whole. Your Board has received financial advice from Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, and in giving that financial advice, Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein have placed reliance on the Board's commercial assessments.

Accordingly, the Directors unanimously recommend Shareholders to vote in favour of the Resolutions, as they intend to do in respect of their own holdings of Ordinary Shares, which together represent approximately 14.82 per cent. of the existing share capital of the Company.

Yours faithfully

Christopher D J Pearce
Chairman

PART 2

INFORMATION ON FITNESS FIRST PLC

Introduction

Fitness First is one of the leading operators of fitness clubs in the world, with operations in the UK, continental Europe, the Far East and Australia. The Group currently operates 225 clubs, 112 of which are in the UK, and has over 500,000 members. The Group operates high quality, well equipped, value-for-money fitness clubs targeting the mid-market segment of the health club industry.

Background Information

History

Fitness First was founded in October 1992 with the objective of developing a chain of health and fitness clubs providing high quality facilities at affordable prices, targeting the mid-market segment of the health and fitness industry, based on cost of membership, with its "affordable fitness" model. The Company floated on AIM in 1996 and moved to the Official List of the London Stock Exchange in February 1999. The Group has demonstrated considerable growth in the number of fitness clubs it operates and in its membership since its flotation, as detailed in the table below.

	1996	1997	October		2000	2001	CAGR
			1998	1999			
Clubs	6	14	33	62	115	200	102%
Members	12,000	24,000	64,000	127,000	237,000	440,000	104%

Business model

A typical Fitness First club follows a consistent format of providing high quality facilities that are typically most used by club members, including a well-equipped gymnasium, aerobics studios, luxury changing facilities, spa area, lounge and beauty salon. Clubs have a free video and DVD library, 16-channel entertainment system and provide complimentary soft drinks, coffee and tea. The club format ensures that the use of space is maximised, thereby enabling membership numbers and revenues to be optimised whilst minimising costs. As such a typical Fitness First club will not have food and beverage, swimming or tennis facilities, which all tend to be costly to build and generate low returns. The Group's flexible and scaleable club design allows a wide variety of properties, in terms of type and size, to be built or converted, ensuring that a strong pipeline of new sites is available to the Group.

The Group offers its members a monthly membership scheme at competitive prices. In the UK membership fees are currently in the range of £23 to £42 per month, with similar charges overseas. The vast majority of the Group's membership fees are collected by direct debit or credit card, resulting in very strong monthly cash flow and high visibility of earnings.

International expansion

Following the successful development of clubs in the UK, the Company commenced an international expansion drive in 1998 and has undertaken a small number of strategic acquisitions of international health club operators which have formed the basis of further organic growth in its non-UK markets. The extent of the Group's international operations is detailed in the table below.

Country of operation	Year of acquisition	Year of first club opening	Number of clubs currently in operation	Approximate number of current members
Continental Europe:				
Germany	1998		45	95,000
Belgium	1999		13	20,000
Spain		2001	9	20,000
Netherlands		2001	3	7,000
Italy		2001	6	11,000
France		2001	5	7,000
Far East	2000		15	22,000
Australia	2000		17	80,000
Total			113	262,000

The fitness markets in many of these countries are much less developed relative to the UK and the Directors expect membership growth rates in these countries to reflect a similar trend to the UK performance over four or five years ago. As market awareness of the benefits of fitness club membership grows in each territory and

the Fitness First brand becomes more recognised, the rate at which future clubs attract new members in these territories is expected to increase.

Financial record

As a result of the sustained growth in the number of clubs and membership, the Company has reported significant compound growth in its turnover, profitability and earnings per share, as detailed in the table below.

£ million	October						CAGR
	1996	1997	1998	1999	2000	2001	
Turnover	3.7	5.7	13.4	27.1	65.3	133.1	105%
Profit before tax*	0.7	1.2	2.5	6.1	12.8	20.6	97%
EPS (p)*	1.3	2.2	4.0	7.6	12.6	17.8	69%

* Before goodwill amortisation

The growth in profit before tax has been achieved notwithstanding the significant increase in the number of the Group's clubs. Most clubs initially generate trading losses, and the positive financial effects of the opening of a new club are typically not recognised until its second year of operation. The Group has an internal rate of return objective of between 20 per cent. and 30 per cent. for mature operating clubs. The Directors expect clubs to achieve this rate of return within three to four years of opening.

Expansion strategy

Whilst already one of the world's largest providers of health and fitness clubs, the Directors believe that the Group can continue to grow its existing operations and benefit from the predicted growth in demand for fitness clubs in the countries in which it operates. The Directors intend to open approximately 80 new clubs in each of the current and the next financial year. In the current financial year, 25 clubs have already been opened as at the date of this document. A further 38 are under construction and 66 are conditionally committed. Heads of terms have been agreed on a further 41 sites. It is anticipated that one third of the new club openings will be in the UK, whilst the remainder will be overseas.

The Directors believe that the wide geographical spread of the Group's operations not only reduces the risk of being reliant on any one country or geographical region but allows the Group to consolidate its position as one of the major operators in this global industry.

The Directors believe that there is considerable growth potential in all its markets and set out below is a table which reflects the number of Fitness First clubs they believe could, based on population sizes, be opened in the medium to long-term in each market they serve:

	<i>Fitness First clubs currently opened in each territory as at date of this document</i>	<i>Potential number of Fitness First clubs</i>
UK	112	250+
Continental Europe:		
Germany	45	200+
Spain	9	60+
Netherlands	3	30+
Italy	6	60+
France	5	60+
Belgium	13	30+
Far East	15	50+
Australia	17	60+
Total	225	800+

Management and employees

The Company was founded by Michael Balfour and Christopher Pearce in 1992, both of whom remain on the Board as Chief Executive Officer and Chairman respectively. Mr Balfour is a Chartered Accountant with over 15 years experience in the running of international health and fitness clubs. Christopher Pearce is Chief Executive of Proteome Sciences plc and a former director of Smith New Court Securities Plc. Colin Child joined the Company as Finance Director in January 2001, having previously been Finance Director and Deputy Chief Executive at National Express Group Plc, replacing Nigel Cartwright, Finance Director of the Group from 1997 until Colin's appointment, and who is now International Operations Director. Additionally Sean Phillips, who joined the Group in 1993, is Sales and Fitness Director. The executive board is supported by non-executive directors, Walter Goldsmith and John Denning, who have been on the Board since 1997 and 2000 respectively.

The Board is supported by a team of experienced senior managers in each of the countries in which the Group operates. The executive Directors establish the strategic and operational framework within which senior managers operate. All senior managers are entitled to receive performance bonuses based on their country's financial results. In addition, club managers and staff are also able to earn bonuses based on their own club's performance. The Company's considerable expansion since 1996 has demonstrated Fitness First's management depth and strength which continues to grow as the Group expands further. The entire development of the Group's clubs is overseen internally by Fitness First staff who are involved in the identification, design, building and opening of all new clubs. Additionally Fitness First has its own training facilities where most members of staff receive training in a wide range of fitness and business skills.

PART 3

LETTER FROM INVESTEC HENDERSON CROSTHWAITE &
DRESDNER KLEINWORT WASSERSTEIN



Investec Henderson Crosthwaite
Corporate Finance
2 Gresham Street
London EC2V 7QP



Dresdner Kleinwort Wasserstein Limited
PO Box 560
20 Fenchurch Street
London EC3P 3DB

To Qualifying Shareholders and, for information only, to the holders of options over Ordinary Shares

31 January 2002

Dear Sir or Madam

**Placing of 18,750,000 New Ordinary Shares at 412p per share and Open Offer of 9,197,101
of those New Ordinary Shares at 412p per share on the basis of one New Ordinary Share
for every ten existing Ordinary Shares**

1. Introduction

As the letter from your Chairman (which comprises Part 1 of this document) explains, Fitness First is proposing to raise approximately £77.25 million (before expenses) by the issue of 18,750,000 New Ordinary Shares pursuant to the Placing and the Open Offer. 9,552,899 New Ordinary Shares have been placed firm at the Issue Price with institutional and certain other investors pursuant to the Firm Placing and are not being offered to Shareholders whilst the remainder, being 9,197,101 New Ordinary Shares, have been conditionally placed at the Issue Price with institutional and certain other investors, but are subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

The Company has received irrevocable undertakings from Christopher Pearce, Michael Balfour and Malcolm Guscott and certain other Shareholders not to take up the, in aggregate, 1,487,990 Open Offer Shares to which they are entitled, representing approximately 1.29 per cent. of the enlarged issued share capital of the Company. Accordingly, the Open Offer Shares to which they are entitled have been placed firm at the Issue Price with institutional and certain other investors pursuant to the Placing.

The Placing and the Open Offer have been fully underwritten by Investec and Dresdner Kleinwort Wasserstein. This letter, together with the accompanying Application Form, contains the formal terms and conditions of the Open Offer.

2. The Open Offer

Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, on behalf of and as agents for the Company, hereby invite Qualifying Shareholders to apply for Open Offer Shares at the Issue Price, subject to the terms and conditions set out below and in the enclosed Application Form, payable in full in cash on application and free of all expenses on the basis of:

one New Ordinary Share for every ten existing Ordinary Shares

held at the close of business on the Record Date and so in proportion for any other number of existing Ordinary Shares then held. Entitlements to Open Offer Shares will be rounded down to the nearest whole number of Open Offer Shares. Fractional entitlements to Open Offer Shares will not be allotted and will be aggregated and placed for the benefit of the Company.

Investec Henderson Crosthwaite Corporate Finance is a division of
Investec Bank (UK) Limited which is regulated by the FSA and is a
member of the London Stock Exchange
Registered office as above Registered in England Number 489604

Regulated by FSA
Member of the Dresdner Bank Group
Registered in England No. 551334
Registered Office: 20 Fenchurch Street
London EC3P 3DB

If valid applications are not received for all of the Open Offer Shares being made available under the Open Offer, such number of Open Offer Shares not so applied for will be subscribed at the Issue Price by placees procured by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, as agents for the Company, pursuant to the terms of the Placing and Open Offer Agreement. To the extent that any Open Offer Shares which are not the subject of valid applications under the Open Offer are not so placed, Investec Henderson Crosthwaite or Dresdner Kleinwort Wasserstein will, as underwriters, subscribe for such shares.

Any Qualifying Shareholder who sold or transferred all or part of his/her registered holding(s) of Ordinary Shares prior to the date upon which the existing Ordinary Shares were marked "ex" the entitlement to the Open Offer by the London Stock Exchange, is advised to consult his/her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the benefits arising under the Open Offer may be claimed from him/her by purchasers under the rules of the London Stock Exchange.

The Open Offer Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared or paid thereon following Admission. No temporary documents of title will be issued.

The Placing and the Open Offer are conditional, *inter alia*, upon:

- (a) the passing of the first of the Resolutions;
- (b) the obligations to make the Placing under the Placing and Open Offer Agreement becoming unconditional, save for Admission, by no later than 26 February 2002 (or such later date, being no later than 5 March 2002, as the Company and Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein may agree) and that agreement not having been terminated in accordance with its terms; and
- (c) Admission.

The Open Offer is not a rights issue. Qualifying Shareholders' entitlements under the Open Offer are not transferable unless to satisfy *bona fide* market claims and the Application Form is not a document of title and cannot be traded. Qualifying Shareholders should be aware that in Open Offer, unlike in a rights issue, the Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer, but will be subscribed for at the Issue Price.

The attention of Overseas Shareholders is drawn to paragraph 6 of this Part 3.

Further details of the Placing and Open Offer Agreement are set out in paragraph 8 of Part 6 of this document.

3. Procedure for application

Each Application Form shows the number of Ordinary Shares registered in the relevant Qualifying Shareholder's name on the Record Date, and also shows the number of Open Offer Shares for which such Qualifying Shareholder is entitled to apply under the Open Offer, calculated on the basis set out in paragraph 2 above. The Application Form incorporates further terms and conditions of the Open Offer. A Qualifying Shareholder may apply for any number of Open Offer Shares up to and including his/her maximum entitlement as shown on the Application Form. No application for Open Offer Shares in excess of this maximum *pro rata* entitlement will be met and any Qualifying Shareholder so applying will be deemed to have applied for his/her maximum entitlement. Any monies received from an applicant in excess of the amount due in respect of his/her application or deemed application will be returned to the applicant without interest at the applicant's sole risk.

Applications for Open Offer Shares under the Open Offer may only be made on an Application Form. Each Application Form is personal to the Qualifying Shareholder(s) named therein and may not be assigned, transferred or split except to satisfy *bona fide* market claims in relation to purchases of existing Ordinary Shares through the market prior to the date upon which the existing Ordinary Shares were marked "ex" the entitlement to the Open Offer by the London Stock Exchange. The Application Form represents only a right to apply for Open Offer Shares. It is not a document of title and cannot be traded.

Any Shareholder who wishes to apply for all or any of the Open Offer Shares to which he/she is entitled must complete the Application Form in accordance with the instructions printed thereon and return it by post or by hand (during normal business hours) to New Issues Department, Capita IRG Plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH (being the address of the Receiving Agent) with a cheque or banker's draft for the full amount payable on application so as to arrive before 3.00 p.m. on 21 February 2002, at which time the Open Offer will close. A reply-paid envelope is enclosed for use by Qualifying Shareholders

in connection with the Open Offer. If an Application Form is being sent by post, Qualifying Shareholders are recommended to allow at least four working days for delivery.

By completing and delivering an Application Form, you (as the applicant(s)):

- (i) agree that all applications, acceptances of applications and controls resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, English law; and
- (ii) confirm that in making the application you are not relying on any information or representation other than such as may be contained in this document and you, accordingly, agree that no person responsible solely or jointly for this document or any part of it shall have any liability for any representation or information not so contained.

Any Shareholder who does not wish to apply for any of the Open Offer Shares to which he/she is entitled should not return a completed Application Form to Capita IRG. All Shareholders are nevertheless requested to complete and return the enclosed Form of Proxy for use in connection with the EGM. Applications made under the Open Offer are irrevocable and will not be acknowledged.

Cheques and banker's drafts should be made payable to "Capita IRG Plc - A/C Fitness First Plc" and crossed "A/C payee only". Cheques or banker's drafts must be drawn in sterling on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which is a member of either of the committees of the Scottish or Belfast clearing houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies or committees. Such cheques or banker's drafts must bear the appropriate sorting code in the top right hand corner and must be for the full amount payable on application.

The Company reserves the right to reject applications unless these requirements are fulfilled. The Company reserves the right to have cheques and banker's drafts presented for payment on receipt and to instruct Capita IRG to seek special clearance of cheques to allow Fitness First to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque warrants that the cheque will be honoured on first presentation. Fitness First may elect at its sole discretion to treat as invalid any acceptance in respect of which remittance is notified to it as not having been so honoured.

If cheques or banker's drafts are presented before the conditions of the Open Offer are fulfilled, the application monies will be held in a separate interest bearing account, with any interest being retained for the benefit of the Company until all conditions are met. If such conditions are not fulfilled by 26 February 2002 at the latest, the Placing and the Open Offer will lapse and application monies will be returned, without interest, by crossed cheque in favour of the applicant(s) through the post at their sole risk as soon as practicable after the lapse of the Placing and the Open Offer.

The Company reserves the right to treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged, even if it is not completed in accordance with the relevant instructions or is not accompanied by the required remittance or a valid power of attorney (where required) or verification of identity satisfactory to Capita IRG to ensure that the Money Laundering Regulations 1993 (the "Money Laundering Regulations") would not be breached by acceptance of the payment submitted in connection with the Application Form or if it otherwise does not strictly comply with the terms and conditions set out in this document or on the Application Form.

The Company reserves the right, but shall not be obliged, to accept applications accompanied by the required remittances which are received after 3.00 p.m. on 21 February 2002 but not later than 9.00 a.m. on 22 February 2002, provided that the cover bears a legible postmark not later than 3.00 p.m. on 21 February 2002. The Company reserves the right, but shall not be obliged, to accept applications in respect of which remittances are received prior to 3.00 p.m. on 21 February 2002 from an authorised person (as that term is defined in the Financial Services and Markets Act 2000) specifying the number of Open Offer Shares concerned and undertaking to lodge the relevant Application Form in due course.

All enquiries in connection with the procedure for application and completion of the Application Form should be referred to Capita IRG, which is acting as Receiving Agent and Paying Agent in respect of the Open Offer. The telephone number of Capita IRG is 0870 162 3100 or, if calling from outside the UK, +44 (0) 020 8639 2157.

4. Money Laundering Regulations

To ensure compliance with the Money Laundering Regulations, Capita IRG may require, in its absolute discretion, verification of the identity of the person by whom or on whose behalf an Application Form is

lodged with payment (which requirements are referred to below as the "verification of identity requirements"). The person (the "applicant") who, by lodging an Application Form with payment, applies for Open Offer Shares (the "relevant shares") and any agent lodging such Application Form on his/her behalf shall thereby be deemed to undertake to provide Capita IRG with such information and other evidence as Capita IRG may require to satisfy the verification of identity requirements.

If Capita IRG determines that the verification of identity requirements apply to any application, the relevant shares will not be allotted to the applicant (notwithstanding any other term of the Placing and the Open Offer) unless and until the verification of identity requirements have been satisfied. If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in a delay in the despatch of a share certificate or delivery of the relevant shares in CREST (as applicable). If the verification of identity requirements have not been satisfied within a reasonable period following a request for evidence of identity, the Company shall, at its sole discretion, be entitled to elect to treat the relevant application as invalid, in which case the monies paid by the applicant will be returned without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn.

Capita IRG shall be entitled, at its sole discretion, to determine whether the verification of identity requirements apply to any applicant and whether such requirements have been satisfied, and neither Capita IRG nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion.

The verification of identity requirements will not usually apply:

- (A) if the applicant is an organisation required to comply with the EU Money Laundering Directive (no. 91 308 EEC); or
- (B) if the applicant (not being an applicant who delivers his/her application in person) makes payment by way of a cheque drawn on an account in the name of such applicant; or
- (C) if the aggregate subscription price for the relevant shares is less than €15,000 or its equivalent.

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account in the name of the applicant) or banker's draft, by the building society or bank endorsing on the cheque or banker's draft the applicant's name and the number of an account held in the applicant's name at such building society or bank, such endorsement being validated by a stamp and an authorised signature;
- (ii) if payment is not made by cheque drawn on an account in the name of the applicant and (i) above does not apply, the applicant should enclose with his/her Application Form evidence of his/her name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the applicant's name and address (originals of such documents (not copies) are required which will be returned in due course); and
- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (A) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, Gibraltar, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey, UK Crown Dependencies and the United States), the agent should provide with the Application Form written confirmation that it has that status and that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to Capita IRG.

In order to confirm the acceptability of any written assurances referred to in paragraph (iii) above or in any other case, the applicant should contact New Issues Department, Capita IRG Plc, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH. The telephone number of Capita IRG is 0870 162 3100 or, if calling from outside the UK, +44 (0) 020 8639 2157.

If (an) Application Form(s) in respect of Open Offer Shares with an aggregate subscription price of €15,000 or its equivalent or more is/are lodged by hand by the applicant in person, he/she should ensure that he/she has with him/her evidence of identity bearing his/her photograph (for example his/her valid full passport) and evidence of his/her address.

If an Application Form is delivered by hand and the accompanying payment is not the applicant's own cheque, the applicant should ensure that he/she has with him/her evidence of identity bearing his/her photograph, for example a valid full passport.

5. CREST

Although the Open Offer will be processed outside CREST, for the purposes of calculating entitlements under the Open Offer, CREST and non-CREST shareholdings will be treated independently and a separate Application Form will be issued in respect of each. If a Qualifying Shareholder has both an uncertificated and certificated shareholding in the Company, there will be two separate Application Forms despatched in respect of such holdings.

Qualifying Shareholders holding their Ordinary Shares in certificated form will be allotted all Open Offer Shares to which they are entitled (and for which they validly apply) in certificated form to the extent their entitlement arises as a result of their holding of Ordinary Shares in certificated form. Qualifying Shareholders holding their Ordinary Shares in uncertificated form will be allotted all Open Offer Shares to which they are entitled (and for which they validly apply) in uncertificated form to the extent that their entitlement arises as a result of their holding Ordinary Shares in uncertificated form.

Qualifying Shareholders who currently hold their existing Ordinary Shares in certificated form but who wish to hold all or part of their holding of Ordinary Shares in uncertificated form will need to comply separately with the relevant CREST procedures for conversion of such shares into uncertificated form following receipt of their share certificates.

Notwithstanding any other provision of this document or of the Application Form, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details in respect of *bona fide* market claims (such as the Member Account ID and Participation ID details) are not provided as requested on the Application Form.

Qualifying Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Open Offer.

For more information as to the procedure for application in each case, Qualifying Shareholders are referred to the Application Form.

6. Overseas Shareholders

The making of the Open Offer to persons not resident in the United Kingdom or who are citizens of countries other than the United Kingdom may be affected by the laws or regulatory requirements of such relevant jurisdiction. No person receiving a copy of this document and/or the Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him/her, nor should he/she in any event use such Application Form, unless in the relevant territory such an invitation or offer could lawfully be made to him/her and such Application Form could lawfully be used without compliance with any registration or other legal or regulatory requirements other than any which have been fulfilled.

It is the responsibility of any person resident outside the United Kingdom or who is a citizen of a country other than the United Kingdom wishing to apply for any Open Offer Shares under the Open Offer to satisfy himself/herself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required and compliance with any other formalities needing to be observed in such territory and payment of any issue, transfer or other taxes due in such territory.

Persons (including, without limitation, nominees and trustees) receiving a copy of this document and/or an Application Form in connection with the Open Offer must not distribute or send either of these documents in or into the United States, Canada, Australia, the Republic of Ireland or Japan or their respective territories or possessions or any other jurisdiction where to do so would or might contravene local securities laws or regulations (together the "prohibited territories"). If a copy of this document and/or the Application Form is received by a person in any of the prohibited territories or by his/her agent or nominee of such a person, he/she must not seek to take up the Open Offer Shares under the Open Offer. Any person who does forward a copy of this document and/or the Application Form into any prohibited territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this letter.

Fitness First reserves the right to accept or reject in its absolute discretion Application Forms received from persons in any prohibited territory or persons it believes are acquiring Open Offer Shares for resale in any such territory. A Shareholder who is in any doubt as to his/her position should consult an appropriate professional adviser without delay. All payments in connection with an accepted Application Form must be made in pounds sterling.

In particular, Shareholders should note the following:

United States and Canada

As the Open Offer Shares are not being registered under the Securities Act and as the relevant exemptions are not being obtained from the appropriate provincial authorities in Canada, the Open Offer Shares are not being offered in or for purchase by persons resident in the United States or Canada or any territory or possessions thereof ("North America"). Applications from any North American person who appears to be or whom Fitness First or Investec Henderson Crosthwaite or Dresdner Kleinwort Wasserstein have reason to believe to be so resident or the agent of any person so resident may be deemed to be invalid. No Application Form will be sent to any Shareholder whose registered address is in North America. If any Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a North American person or the agent of a North American person so resident, he/she should not apply under the Open Offer.

Fitness First reserves the right to invite a limited number of Shareholders in the United States to apply for New Ordinary Shares who may qualify as an institutional "accredited investor" as defined in Rule 501(a) under the Securities Act, under restrictions designed to preclude a distribution which would require registration of such New Ordinary Shares under the Securities Act and otherwise to ensure compliance with the laws of the United States. Any such New Ordinary Shares acquired by an institutional "accredited investor" will be deemed "restricted securities" for purposes of US securities laws and subject to restrictions on re-sale or transfer. In addition, any such investor will be required to make certain representations and warranties to Fitness First in connection with any such investment.

For the purposes of this document, "North American person" means a "U.S. Person" as defined in Regulation S of the United States Securities Act of 1933 or citizen or resident of North America including the estate of any such person or any corporation, partnership or other entity created or organised under the laws of North America or any state or trust, the income of which is liable to Canadian income tax regardless of its services or any political sub-division thereof.

Australia

No prospectus in relation to the Open Offer Shares has been lodged with, or registered by, the Australian Securities and Investments Commission. A person may not:

- (a) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, the Open Offer Shares; or
- (b) distribute any draft or definitive document in relation to any such offer, invitation or sale

in the Commonwealth of Australia, its states, territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such a corporation or entity located outside Australia).

Accordingly, this document and the Application Form will not be issued to Shareholders with registered addresses in, or to residents of, Australia.

Republic of Ireland

In order to comply with the laws of the Republic of Ireland, no Application Forms will be sent to Qualifying Shareholders with registered addresses in the Republic of Ireland.

Japan

The Open Offer is not being made in Japan and the Open Offer Shares will not be available for purchase by any resident of Japan, including any corporations organised under the laws of Japan.

Other overseas territories

Shareholders resident in other overseas territories should consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any Open Offer Shares.

7. Taxation

The attention of Shareholders is drawn to paragraph 7 of Part 6 of this document. Shareholders who are in any doubt as to their tax position should consult a suitable professional adviser immediately.

8. Admission, dealings and settlement

Applications have been made to the UK Listing Authority and to the London Stock Exchange for the Open Offer Shares to be admitted to (i) the Official List and (ii) trading on the London Stock Exchange's markets for listed securities. Subject to the Placing and the Open Offer becoming unconditional in all respects, it is expected that Admission will become effective and that dealings in the Open Offer Shares, fully paid, will commence on 26 February 2002.

Subject to the satisfaction of the conditions of the Open Offer, the Open Offer Shares will be registered in the names of the Qualifying Shareholders validly applying for them and issued as applicable either:

- (a) in certificated form, with the relevant share certificate expected to be despatched by post, at the applicant's sole risk by 5 March 2002; or
- (b) in CREST, with delivery (to the designated CREST account) of the Open Offer Shares applied for expected to take place on 26 February 2002 unless the Company exercises its right to issue such Open Offer Shares in certificated form.

No temporary documents of title will be issued. All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her sole risk. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register.

9. Holders of options over Ordinary Shares under the Share Option Schemes

The Open Offer is not being extended to holders of options over Ordinary Shares under the Share Option Schemes.

10. Further information

Your attention is drawn to the additional information set out in Parts 1, 2, 4, 5 and 6 of this document and to the terms and conditions set out in the enclosed Application Form.

Yours faithfully

For and on behalf of
Investec Henderson Crosthwaite

For and on behalf of
Dresdner Kleinwort Wasserstein

Andrew Edwards
Director of Corporate Finance
Investec Henderson Crosthwaite

Charles Batten
Managing Director, Investment Banking
Dresdner Kleinwort Wasserstein

PART 4

CHAIRMAN'S LETTER AND CHIEF EXECUTIVE'S REVIEW FROM THE PRELIMINARY ANNOUNCEMENT OF THE FINAL RESULTS FOR THE PERIOD ENDED 31 OCTOBER 2001

Set out below is the full text of the Chairman's Statement and Chief Executive's Review, extracted from the preliminary announcement of the final results for the year ended 31 October 2001, which was released earlier today:

“CHAIRMAN'S STATEMENT

I am pleased to report that Fitness First continued its successful growth and consolidated its position in each of the markets where it operates. We have become the largest fitness club operator in Europe and are now one of the leading operators in the world.

At 31 October 2001 the Group operated 200 clubs, 100 of which were located outside of the UK. Since then a further 25 clubs have opened and, with a considerable “pipeline” of new clubs in place, we are well on track to achieve our target of 280 clubs by the end of the current financial year.

Fitness First had over 440,000 members at 31 October 2001 of whom 50% were in the UK. By 31 January 2002 membership has grown by 60,000 to over 500,000.

Financial Results

During the year ended 31 October 2001 the Group's turnover increased over 100% to £133.1m (2000: £65.3m). Pre tax profit, before goodwill amortisation, was £20.6m (2000: £12.8m) an increase of over 60%. Earnings per share, before goodwill amortisation, rose by over 40% to 17.8p per share (2000: 12.6p).

Your Board continues to believe that shareholder returns can be maximised by reinvesting the Group's profits and the strong cash flows generated during the year in further club openings. Accordingly, a dividend for the year ended 31 October 2001 is not being declared.

Expansion

During the year the Group continued its rapid expansion, capitalising on the growing awareness of the benefits of regular exercise and a healthier lifestyle. These factors together with a greater recognition of the Fitness First brand ensured that our new club opening programme met our expectations.

The Group has successfully grown in all its international markets, building on the strategic platforms established in the previous financial year. On 1 November 2000 we completed the acquisition of 11 quality clubs in Australia which were making losses at the time of acquisition. These were extensively reorganised with a number of major initiatives to increase revenue and reduce costs being implemented. Following these management actions the Australian operation has reported an operating profit for the year of £2.6m. This is an outstanding achievement from the local management team and all the staff.

Management

One of the key reasons for the success of Fitness First has been its management and employees. During the year we have continued to enhance and strengthen the senior management with appointments from within the industry and other service related sectors.

In a rapidly growing international Group we are now able to provide exciting career opportunities for all our staff. We remain determined to enable our employees to achieve their full potential in the fitness industry and we continue to invest heavily in their training and development.

Due to family commitments Malcolm Guscott, Property Director, has decided to retire from the Board at the Company's AGM in March. Malcolm has made a considerable contribution to the Group's success since he joined in 1994 not only identifying numerous successful club sites but also in establishing a first class property team to succeed him. I should like to thank Malcolm for his diligence and commitment and wish him well in the future.

I would like to take this opportunity to sincerely thank all of the Group's employees around the world. Their enthusiasm, commitment, professionalism and positive attitude make Fitness First the success it is.

Placing and Open Offer

To fund the continued expansion of the Group we increased our bank facilities during the year and currently have a £180m banking facility available to us. It is however important that we retain a balanced

approach to the Group's funding and accordingly your Board has proposed a material equity fund raising by way of a Placing and Open Offer. This, in addition to the increased bank facilities, will address our funding requirements for the foreseeable future and will allow the Group to develop and expand on a sustainable basis over the long term.

Current Trading

The current financial year has started well and the prospects for the financial year as a whole look most encouraging with demand for our facilities remaining buoyant. With an excellent pipeline of new clubs and an established successful formula Fitness First can further extend its impressive growth record. The prospects for the Group are favourable and your Directors are confident of a strong performance in the current year.

Christopher Pearce
Chairman
31 January 2002

CHIEF EXECUTIVE'S REVIEW

During 2001 Fitness First has successfully built on the strategic platforms we established in our chosen international markets in the previous financial period. This international expansion has been achieved in parallel to our continued expansion in the UK market.

In October 2001 we celebrated the opening of our 200th club which represents a remarkable growth record from the six clubs we operated at the time of our flotation on AIM in 1996. Equally impressive is that of these 200 clubs, 100 were based outside of the UK. I am pleased to report that the 200th club – Shepherds Bush, London – has, within less than three months, attracted nearly 3,000 members. This is a great credit to the operations team and reflects the strength and depth of management that identify good sites, design and build attractive clubs and recruit and train excellent staff.

Financial Results

The Group's financial results for the year ended 31 October 2001 have been summarised in the Chairman's Statement. I should only like to add that the Group's operating cash flows remain strong with £42.9m generated during the year (2000: £22.2m). For the year ended 31 October 2001 capital expenditure of £119.6m was incurred (2000: £51.7m) largely on new clubs. The level of capital expenditure for the current year is expected to continue at a little below the 2001 level as the new club opening programme is maintained.

During the year we increased the unsecured bank facilities available to the Group to £180m. We were pleased with the support we received from the expanded banking group in arranging these facilities in difficult market conditions.

At the date of this report we have announced a Placing and Open Offer to raise additional funds for the Group's expansion. As the Group grows it is important that we ensure an appropriate balance between debt and equity and the completion of this exercise will address our funding requirements for the foreseeable future.

Operational Review

During 2001 Fitness First increased the number of clubs by 85, taking the total to 200. Since the year end a further 25 clubs have opened and we are well positioned to meet our projections of having 280 clubs open by the end of the current financial year.

We build high specification clubs following our normal format. This typically comprises a well-equipped gymnasium, aerobics studio, luxury changing facilities, spa area, beauty salons and members' lounge.

In 2001 we have consolidated our position as a leading international health club operator and made considerable progress in growing in all our markets.

Clubs by Country

	<i>October 2001 Actual</i>	<i>January 2002 Actual</i>	<i>October 2002 Forecast</i>
UK	100	112	128
Continental Europe:			
Germany	43	45	57
Belgium	11	13	16
Spain	8	9	14
Netherlands	3	3	6
Italy	5	6	9
France	4	5	8
Far East	11	15	20
Australia	15	17	22
TOTAL	200	225	280

UK Review

We have maintained our excellent record of growth in the UK, both operationally and financially, with the opening of 28 new clubs taking the total to 100 at the year end and generating an operating profit of £20.1m for the year (2000: £12.6m). At the time of this report the number of clubs has grown to 112. At the end of

the financial year membership stood at 220,000 and by the date of this report has grown to 240,000, an increase of 33% on this time last year. Membership numbers at our mature clubs and our new clubs remain strong and we enjoy rapid "fill rates" at our new club openings.

The awareness of the Fitness First brand in the UK continues to grow aided by a greater geographic spread of clubs. During the year we opened clubs as far afield as Inverness and Exeter but there are still over 120 towns and cities where we have yet to open a club and which have suitable demographics for at least one Fitness First club. In addition there are over 60 towns and cities where we currently have fewer clubs than the population size would support. We do therefore believe that we can, over the next five to six years, have over 250 operating clubs in the UK and there will still be potential for further growth.

Continental European Review

Our German operation had another strong year of growth with the number of clubs operating increasing by 13 to 43, with a further two clubs opening since the year end. Membership numbers in Germany have increased from 65,000 at this time last year to 95,000 at the date of this report, an increase of 46%, and we have a further 12 clubs under construction. The German operation reported an operating profit of £4.4m for the year which represents an increase of over 100% on the corresponding period.

Our Belgian associate opened five new clubs during the year and two further clubs since the year end bringing the current total to 13. At the date of this report membership has grown to 20,000 from 10,000 at the same time last year, an increase of 100%. Since the year end we have exercised our option and increased our shareholding from 40% to 52%. The company will now be branded as Fitness First - Passage, and its results will be consolidated within the Group's results.

The new start up operations that we established in Spain, The Netherlands, France and Italy during the previous financial year have all made good progress with a total of 23 clubs now open. As I have previously reported, the markets in each of these countries are still in the early stages of development. We therefore expect that until these markets become more mature it will take our new clubs longer to fill when compared with more established markets such as the UK. However I am pleased to report that we now have over 45,000 members in the 23 clubs, all of which opened during the year and which is better than we projected.

I am also pleased to report that for example in Spain, of the eight clubs we operated at the year end, all of which were less than one year old, five are already profitable and the eight clubs as a whole are making a positive contribution to the Group's results. This is very encouraging and is ahead of our original expectations. As we open more clubs in these new territories we gain valuable experience of the sometimes subtle differences in these markets. This learning process is already proving beneficial; for example two of the newest clubs in Spain opened with over 2,000 members each and our latest club has opened with 2,500 pre-sold memberships. This success was a result of adapting our standard new club marketing process to reflect the local market.

These new European operations reported an operating loss for the year of £1.5m which reflects both the start-up costs of the country offices and initial trading losses of the new clubs. As the number of clubs operating in each region increases during 2002 and we achieve a critical mass in each country we expect these losses to be eliminated.

I should add that the 2001 losses represent a very modest "investment" in establishing these operations, and based on recent trading results we remain confident that these new markets will generate good results and provide the Group with exciting growth prospects.

This has been an extraordinarily busy time for our new management teams and staff in these countries and I should like to congratulate them on the successful launch of Fitness First in their markets.

Far East

During the year SPORTathlon, our Far East operation, opened four Fitness First clubs and since the year end a further four clubs have opened taking the total to eight new Fitness First clubs - three in Hong Kong, two in Thailand and one in Malaysia, the Philippines and China. In comparison with the existing operators in these countries our clubs are of an extremely high specification and yet maintain our value for money membership structure.

The new clubs have performed well and the eight new clubs, which all opened since August 2001, now have a total of over 14,000 members. Although we are adopting a prudent approach to the rollout programme of new clubs in this region we believe our growth prospects are excellent.

SPORTathlon reported an operating profit of £0.7m for the year which is after the early period losses incurred on opening the new Fitness First clubs.

Australia

In November 2000 we acquired 11 quality clubs in Australia. These clubs were incurring substantial operating losses at the time of acquisition but following a number of initiatives and adopting of the Fitness First model they are now showing excellent returns.

The new management team in Australia have added a further six clubs to the business which takes the number of clubs to 17 and increased the membership from 45,000 at the time of acquisition to 80,000 at the date of this report. The financial performance of this business has significantly exceeded our initial expectations for its first year within the Group reporting an operating profit of £2.6m for the year.

Outlook

During 2001 we have again demonstrated that the Fitness First model of providing high quality, value for money facilities can be successfully "rolled out" in both the UK and internationally. The prospects for the Group are extremely attractive especially given the growing trend of people around the world wishing to improve their lifestyles and achieve a healthier life through regular exercise. This trend can only be accelerated as a result of the increasing awareness of the health problems caused by obesity, stress and heart disease which are becoming more prevalent across the world.

I am convinced that through Fitness First maintaining its high standards and remaining focused on our core product within this still young market we can continue to deliver substantial earnings growth for shareholders and further consolidate and expand our international position.

During 2001 we welcomed over 2,000 new employees into Fitness First. Based on our plans for 2002 over 2,200 new jobs will be created, of which at least 700 will be in the UK. It is a credit to all our staff that in just eight years we have grown from our first club in Bournemouth to 225 clubs now. As part of an expanding international Group the prospects for our employees are both challenging and exciting and finally, and most importantly, I should like to thank all our 6,300 employees around the world for their tremendous contribution during the year.

Michael Balfour
Chief Executive
31 January 2002"

PART 5

COMPARATIVE TABLE ON FITNESS FIRST PLC

The financial information in this Part 5 has been extracted without material adjustment from the audited consolidated financial statements of Fitness First and its subsidiaries for the three years ended 31 October 2001. The financial information in this Part 5 does not constitute statutory accounts within the meaning of section 240 of the Companies Act. The statutory consolidated financial statements of Fitness First and its subsidiaries for the three years ended 31 October 2001 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act. The auditors of Fitness First, Deloitte & Touche, Chartered Accountants and Registered Auditors, Mountbatten House, 1 Grosvenor Square, Southampton SO15 2BZ have given unqualified reports under section 235 of the Act which did not contain a statement under section 237(2) and (3) of the Act in respect of the last three accounting periods ended 31 October 1999, 31 October 2000 and 31 October 2001 respectively.

1. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Note	Year ended 31 October		
		1999 £000	2000 £000	2001 £000
Turnover: Group and share of joint ventures		31,316	67,776	133,352
Less: Share of joint ventures' turnover		(4,155)	(2,509)	(293)
Group turnover – continuing operations		27,161	65,267	114,675
– acquisitions		—	—	18,384
Cost of sales	1,2,3	27,161 (993)	65,267 (2,680)	133,059 (9,234)
Gross profit		26,168	62,587	123,825
Administrative expenses – other		(20,045)	(49,551)	(100,444)
Administrative expenses – goodwill amortisation		—	(1,462)	(2,441)
Administrative expenses – total		(20,045)	(51,013)	(102,885)
Operating profit – continuing operations	3,5	6,123	11,574	18,498
– acquisitions		—	—	2,442
Share of profit of joint ventures and associated undertakings	3	6,123	11,574	20,940
		605	(14)	(66)
Profit on ordinary activities before interest		6,728	11,560	20,874
Interest receivable and similar income		331	831	628
Interest payable and similar charges	6	(950)	(1,071)	(3,408)
Profit on ordinary activities before taxation	2	6,109	11,320	18,094
Tax on profit on ordinary activities	7	(521)	(1,132)	(3,062)
Profit on ordinary activities after taxation		5,588	10,188	15,032
Equity minority interests		—	(23)	(306)
Retained profit for the financial year	21	5,588	10,165	14,726
Earnings per share	8	7.6p	11.0p	15.3p
Earnings per share before goodwill amortisation	8	7.6p	12.6p	17.8p
Diluted earnings per share	8	7.5p	10.8p	15.0p
Diluted earnings per share before goodwill amortisation	8	7.5p	12.4p	17.5p

2. CONSOLIDATED BALANCE SHEETS

	Note	<i>As at 31 October</i>		
		1999 £000	2000 £000	2001 £000
Fixed assets				
Intangible assets	9	—	44,094	46,949
Tangible assets	10	65,369	128,507	250,622
Investments	11	3,775	1,495	2,223
		<u>69,144</u>	<u>174,096</u>	<u>299,794</u>
Current assets				
Stocks	13	108	1,297	2,697
Debtors	14	1,231	3,937	12,313
Cash at bank and in hand		15,479	17,857	10,384
		<u>16,818</u>	<u>23,091</u>	<u>25,394</u>
Creditors: amounts falling due within one year	15	(12,364)	(30,288)	(56,920)
Net current assets/(liabilities)		<u>4,454</u>	<u>(7,197)</u>	<u>(31,256)</u>
Total assets less current liabilities		<u>73,598</u>	<u>166,899</u>	<u>268,268</u>
Creditors: amounts falling due after more than one year	16	(1,321)	(19,137)	(104,277)
Minority interests				
Equity minority interests		—	(139)	(965)
		<u>72,277</u>	<u>147,623</u>	<u>163,026</u>
Capital and reserves				
Called up share capital	20	10,568	11,457	11,496
Shares to be issued	21	—	27,010	27,010
Share premium account	21	60,200	98,383	98,586
Profit and loss account	21	1,509	10,773	25,934
Equity shareholders' funds		<u>72,277</u>	<u>147,623</u>	<u>163,026</u>

3. CONSOLIDATED CASH FLOW STATEMENTS

	Note	<i>Year ended 31 October</i>		
		1999 £000	2000 £000	2001 £000
Net cash inflow from operating activities	A	12,139	22,193	42,940
Returns on investments and servicing of finance	D	(701)	(190)	(2,650)
Taxation	D	—	(257)	(1,896)
Capital expenditure	D	(27,529)	(51,733)	(119,627)
Acquisitions and disposals	D	(9)	(4,785)	(5,406)
Cash outflow before management of liquid resources and financing		<u>(16,100)</u>	<u>(34,772)</u>	<u>(86,639)</u>
Management of liquid resources	D	(13,000)	9,812	3,188
Financing	D	21,038	33,612	81,983
(Decrease)/increase in cash in the year	B	<u>(8,062)</u>	<u>8,652</u>	<u>(1,468)</u>

A. Reconciliation of operating profit to net cash inflow from operating activities

	1999 £000	2000 £000	2001 £000
Operating profit	6,123	11,574	20,940
Depreciation	2,524	5,757	11,555
Goodwill amortisation	—	1,462	2,441
Increase in stocks	(10)	(401)	(1,400)
Decrease/(increase) in debtors	120	(18)	(8,046)
Increase in creditors	3,400	3,658	17,450
(Profit)/loss on disposal of tangible fixed assets	(18)	161	—
Net cash inflow from operating activities	12,139	22,193	42,940

B. Analysis of Net Debt

	At 1 November 1998 £000	Cashflow £000	Debts acquired £000	Other non cash changes £000	At 31 October 1999 £000
Cash at bank and in hand – short term deposits	—	13,000	—	—	13,000
Cash at bank and in hand – other	10,072	(7,593)	—	—	2,479
Bank overdrafts	(568)	(469)	—	—	(1,037)
	9,504	4,938	—	—	14,442
Debt due after one year	(13,740)	13,740	—	—	—
Debt due within one year	(3,686)	3,686	—	—	—
Loan notes due after one year	(812)	—	—	75	(737)
Finance leases and hire purchase contracts	(1,898)	1,671	—	(2,502)	(2,729)
Total net (debt)/cash	(10,632)	24,035	—	(2,427)	10,976

	At 1 November 1999 £000	Cashflow £000	Debts acquired £000	Other non cash changes £000	At 31 October 2000 £000
Cash at bank and in hand – short term deposits	13,000	(9,812)	—	—	3,188
Cash at bank and in hand – other	2,479	12,190	—	—	14,669
Bank overdrafts	(1,037)	(3,538)	—	—	(4,575)
	14,442	(1,160)	—	—	13,282
Debt due after one year	—	(10,516)	(3,322)	—	(13,838)
Debt due within one year	—	(260)	(1,600)	—	(1,860)
Loan notes due after one year	(737)	—	—	65	(672)
Finance leases and hire purchase contracts	(2,729)	2,446	(1,715)	(4,774)	(6,772)
Total net cash/(debt)	10,976	(9,490)	(6,637)	(4,709)	(9,860)

B. Analysis of Net Debt (continued)

	<i>At</i> <i>1 November</i> <i>2000</i> <i>£000</i>	<i>Cashflow</i> <i>£000</i>	<i>Debts</i> <i>acquired</i> <i>£000</i>	<i>Other</i> <i>non cash</i> <i>changes</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2001</i> <i>£000</i>
Cash at bank and in hand – short term deposits	3,188	(3,188)	—	—	—
Cash at bank and in hand – other	14,669	(4,285)	—	—	10,384
Bank overdrafts	(4,575)	2,817	—	—	(1,758)
	<u>13,282</u>	<u>(4,656)</u>	<u>—</u>	<u>—</u>	<u>8,626</u>
Debt due after one year	(13,838)	(88,479)	—	2,234	(100,083)
Debt due within one year	(1,860)	1,860	—	(2,234)	(2,234)
Other loans receivable after one year	—	600	—	—	600
Loan notes due within one year	—	—	—	(712)	(712)
Loan notes due after one year	(672)	—	—	672	—
Finance leases and hire purchase contracts	(6,772)	4,008	(1,856)	(584)	(5,204)
Total net debt	<u>(9,860)</u>	<u>(86,667)</u>	<u>(1,856)</u>	<u>(624)</u>	<u>(99,007)</u>

C. Reconciliation of net cash flow to movement in net debt

	<i>1999</i> <i>£000</i>	<i>2000</i> <i>£000</i>	<i>2001</i> <i>£000</i>
(Decrease)/increase in cash in the year	(8,062)	8,652	(1,468)
Cash inflow/(outflow) from increase/(decrease) in liquid resources	13,000	(9,812)	(3,188)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	<u>19,097</u>	<u>(8,330)</u>	<u>(82,011)</u>
Movement in debt arising from cash flows	24,035	(9,490)	(86,667)
Loans and finance leases acquired with subsidiaries	—	(6,637)	(1,856)
Exchange difference	75	65	(40)
New finance leases and hire purchase contracts	<u>(2,502)</u>	<u>(4,774)</u>	<u>(584)</u>
Movement in debt in the year	21,608	(20,836)	(89,147)
Net (debt)/cash at beginning of year	<u>(10,632)</u>	<u>10,976</u>	<u>(9,860)</u>
Net cash/(debt) at end of year	<u>10,976</u>	<u>(9,860)</u>	<u>(99,007)</u>

D. Analysis of Cash Flows

	1999	2000	2001
£000	£000	£000	£000
Returns on investments and servicing of finance			
Interest received	319	843	628
Interest paid	(783)	(600)	(2,753)
Interest element of finance lease rental payments	(237)	(433)	(525)
	<u>(701)</u>	<u>(190)</u>	<u>(2,650)</u>
Taxation			
Corporation tax paid	—	(257)	(1,896)
Capital expenditure			
Payments to acquire tangible fixed assets	(27,896)	(51,884)	(119,739)
Receipts from sales of tangible fixed assets	367	151	112
	<u>(27,529)</u>	<u>(51,733)</u>	<u>(119,627)</u>
Acquisitions and disposals			
Investment in subsidiary undertakings	—	(3,387)	(5,406)
Investment in joint ventures	(9)	—	—
Investment in associated undertakings	—	(1,398)	—
	<u>(9)</u>	<u>(4,785)</u>	<u>(5,406)</u>
Management of liquid resources			
Short term deposit	(13,000)	9,812	3,188
Financing			
Issue of ordinary share capital	41,130	25,766	242
Share issue expenses	(995)	(484)	—
Debt due within one year: (repayment of)/new bank loans	(3,686)	260	(1,860)
Debt due after one year: (repayment of)/new bank loans	(13,740)	10,516	88,479
Other loans due after more than one year	—	—	(600)
Loan to associated undertaking due after one year	—	—	(790)
Issue of shares to minority	—	—	520
Capital element of finance lease rental payments	(1,671)	(2,446)	(4,008)
	<u>21,038</u>	<u>33,612</u>	<u>81,983</u>

4. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1999	2000	2001
£000	£000	£000	£000
Profit for the financial year	5,588	10,165	14,726
Currency translation differences	(305)	(782)	435
Adjustment on acquisition of subsidiary	—	(119)	—
Total recognised gains and losses relating to the year	<u>5,283</u>	<u>9,264</u>	<u>15,161</u>

5. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £000	2000 £000	2001 £000
Profit for the financial year	5,588	10,165	14,726
Other recognised gains and losses relating to the year	(305)	(901)	435
Shares issued	41,130	39,556	242
Share issue costs	(995)	(484)	—
Shares to be issued	—	27,010	—
Goodwill on investment in joint venture	(9)	—	—
Net addition to shareholders' funds	45,409	75,346	15,403
Opening shareholders' funds	26,868	72,277	147,623
Net addition to shareholders' funds	45,409	75,346	15,403
Closing shareholders' funds	72,277	147,623	163,026

6. NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

The financial information set out in this report has been prepared under the historical cost convention in accordance with applicable accounting standards. The Company's principal accounting policies are described below.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. Acquisitions are accounted for under the acquisition method. The Group's share of the results of the subsidiary undertakings are included for the period during which they are a member of the group.

Acquisitions

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition. Prior to the implementation of FRS 10 (in the year ended 31 October 1999), purchased goodwill was written off directly to reserves and has not been reinstated.

The results and cash flows relating to an acquired business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

Turnover

The Group derives its income principally from the sale of fitness club memberships and associated joining fees. All income is recognised on an accruals basis over the membership period apart from income relating to joining fees which is recognised immediately. For new club openings, income is recognised from the date of opening.

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.

Intangible fixed assets

Purchased goodwill arising on the acquisition of subsidiary undertakings, joint ventures and associated undertakings prior to 31 October 1999 was written off directly to reserves. Purchased goodwill arising on acquisitions after 31 October 1999 is capitalised and amortised over its useful economic life being not more than 20 years in accordance with FRS 10.

Goodwill arising in respect of overseas acquisitions which is denominated in foreign currencies is retranslated at the closing rates of exchange ruling at the balance sheet date. These translation differences are taken directly to reserves.

1. Accounting policies (continued)

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 capital funding which are taken directly to reserves.

The financial statements of foreign subsidiaries, joint ventures and associated undertakings are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries, joint ventures and associated undertakings at the closing rate is taken directly to reserves.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, except for 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
Fitness equipment	16.7% per annum
Fixtures, 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 value, except where the investments relate to foreign equity investments which are hedged by foreign currency loans.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method and shares in joint ventures are accounted for using the gross equity method.

Leases

Assets held under finance leases and hire purchase contracts are capitalised 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.

Stocks

Stocks are comprised of merchandise, bar stock, complimentary bar stock and video stock and are valued at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

Pensions

Pension costs represent the amounts paid into personal pension schemes on behalf of certain Directors and employees.

2. Analysis of Turnover, Profit before tax 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. As shown on the face of the profit and loss account, this figure does not include the Group share of joint ventures' turnover, which is accounted for under the gross equity method as required by FRS 9.

	Turnover			Profit before tax*			Net assets		
	1999 £000	2000 £000	2001 £000	1999 £000	2000 £000	2001 £000	1999 £000	2000 £000	2001 £000
Geographical analysis by location and destination									
United Kingdom	27,161	49,725	73,756	6,109	11,395	16,089	72,277	140,669	101,294
Other European countries	—	12,288	30,492	—	(289)	(557)	—	5,507	45,601
Far East and Australia	—	3,254	28,811	—	214	2,562	—	1,447	16,131
	<u>27,161</u>	<u>65,267</u>	<u>133,059</u>	<u>6,109</u>	<u>11,320</u>	<u>18,094</u>	<u>72,277</u>	<u>147,623</u>	<u>163,026</u>

* Profit before tax is stated after amortisation of goodwill of £2,195,000 (2000: £1,444,000) and £265,000 (2000: £37,000) in other European Countries and the Far East and Australia respectively.

3. Analysis of Continuing Operations

	1999 £000	2000 £000	2001 Continuing £000	2001 Acquisitions £000	2001 Total £000
Turnover	27,161	65,267	114,675	18,384	133,059
Cost of sales	(993)	(2,680)	(8,143)	(1,091)	(9,234)
Gross profit	<u>26,168</u>	<u>62,587</u>	<u>106,532</u>	<u>17,293</u>	<u>123,825</u>
Administrative expenses	(20,045)	(49,551)	(85,748)	(14,696)	(100,444)
Operating profit before goodwill	<u>6,123</u>	<u>13,036</u>	<u>20,784</u>	<u>2,597</u>	<u>23,381</u>
Goodwill amortisation	—	(1,462)	(2,286)	(155)	(2,441)
Operating profit	<u>6,123</u>	<u>11,574</u>	<u>18,498</u>	<u>2,442</u>	<u>20,940</u>

Analysis of the results of joint ventures and associates:

	1999 £000	2000 £000	2001 £000
Share of profit of joint ventures	592	182	94
Share of profit/(loss) of associated undertakings	13	(196)	(160)
	<u>605</u>	<u>(14)</u>	<u>(66)</u>

4. Information Regarding Directors and Employees

Directors' emoluments

<i>Name of Director</i>	<i>Fees £'000</i>	<i>Basic Salary £'000</i>	<i>Bonus £'000</i>	<i>Taxable Benefits £'000</i>	<i>Pensions £'000</i>	<i>1999 Total £'000</i>
C D J Pearce	39	—	10	—	—	49
M W Balfour	—	126	50	11	13	200
N R Cartwright	—	80	17	8	8	113
S V Phillips	—	80	25	9	3	117
M S Guscott	—	—	—	—	—	—
S J Bamford	13	—	—	—	—	13
W K Goldsmith	13	—	—	—	—	13
	<u>65</u>	<u>286</u>	<u>102</u>	<u>28</u>	<u>24</u>	<u>505</u>

<i>Name of Director</i>	<i>Fees £'000</i>	<i>Basic Salary £'000</i>	<i>Bonus £'000</i>	<i>Taxable Benefits £'000</i>	<i>Pensions £'000</i>	<i>2000 Total £'000</i>
C D J Pearce	50	—	15	—	—	65
M W Balfour	—	175	75	10	17	277
N R Cartwright	—	110	35	11	11	167
S V Phillips	—	110	35	8	11	164
M S Guscott	—	82	35	—	—	117
S J Bamford	18	—	—	—	—	18
W K Goldsmith	18	—	—	—	—	18
E J Denning	7	—	—	—	—	7
	<u>93</u>	<u>477</u>	<u>195</u>	<u>29</u>	<u>39</u>	<u>833</u>

<i>Name of Director</i>	<i>Fees £'000</i>	<i>Basic Salary £'000</i>	<i>Bonus £'000</i>	<i>Taxable Benefits £'000</i>	<i>Pensions £'000</i>	<i>2001 Total £'000</i>
C D J Pearce	25	35	18	—	—	78
M W Balfour	—	250	75	11	29	365
C C Child	—	146	50	9	29	234
N R Cartwright	—	120	35	12	14	181
S V Phillips	—	120	35	8	14	177
M S Guscott	—	120	25	—	—	145
S J Bamford	7	—	—	—	—	7
W K Goldsmith	20	—	—	—	—	20
E J Denning	20	—	—	—	—	20
	<u>72</u>	<u>791</u>	<u>238</u>	<u>40</u>	<u>86</u>	<u>1,227</u>

Mr C D J Pearce provided consultancy services to the Company through an agreement dated 18 February 1997 between C F Partners Limited and the Company, but since 1 April 2001 he has been remunerated under PAYE. During the three years ended 31 October 2001 consultancy fees of £39,000, £50,000 and £25,000 and performance bonuses of £10,000, £15,000 and £nil respectively were payable to C F Partners Limited.

4. Information Regarding Directors and Employees (continued)

Directors' share options

The following options over ordinary shares have been granted to and are exercisable by the Directors under the Fitness First Plc 1996 Executive Share Option Scheme:

<i>Director</i>	<i>Date of grant</i>	<i>At 1 November 1998</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>At 31 October 1999</i>	<i>Exercise Period</i>	<i>Exercise Price</i>
S V Phillips	03.10.96	120,000	—	(55,000)	65,000	03.10.99 – 02.10.02	80p
	15.09.97	40,000	—	—	40,000	15.09.00 – 14.09.03	155.5p
	25.09.98	40,000	—	—	40,000	25.09.01 – 24.09.04	234p
N R Cartwright	31.01.97	100,000	—	—	100,000	31.01.00 – 30.01.03	138p
	15.09.97	40,000	—	—	40,000	15.09.00 – 14.09.03	155.5p
	25.09.98	40,000	—	—	40,000	25.09.01 – 24.09.04	234p

The aggregate amount of gains made during the year ended 31 October 1999 by Directors on the exercise of share options was £308,000.

<i>Director</i>	<i>Date of grant</i>	<i>At 1 November 1999</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>At 31 October 2000</i>	<i>Exercise Period</i>	<i>Exercise Price</i>
S V Phillips	03.10.96	65,000	—	(50,000)	15,000	03.10.99 – 02.10.02	80p
	15.09.97	40,000	—	—	40,000	15.09.00 – 14.09.03	155.5p
	25.09.98	40,000	—	—	40,000	25.09.01 – 24.09.04	234p
	08.11.99	—	40,000	—	40,000	08.11.02 – 07.11.05	687p
	02.10.00	—	37,500	—	37,500	02.10.03 – 01.10.06	1133p
N R Cartwright	31.01.97	100,000	—	(100,000)	—	31.01.00 – 30.01.03	138p
	15.09.97	40,000	—	—	40,000	15.09.00 – 14.09.03	155.5p
	25.09.98	40,000	—	—	40,000	25.09.01 – 24.09.04	234p
	08.11.99	—	40,000	—	40,000	08.11.02 – 07.11.05	687p
	02.10.00	—	37,500	—	37,500	02.10.03 – 01.10.06	1133p

The aggregate amount of gains made during the year ended 31 October 2000 by Directors on the exercise of share options was £1,622,000.

On 28 February 2001, the Company resolved that each 25p ordinary share be sub-divided into two new shares of 12.5p each. The tables of options granted to and exercisable by the Directors under the Fitness First Plc 1996 Executive Share Option Scheme and the Fitness First Plc 2000 Executive Approved Share Option Scheme below, at 1 November 2000 and 31 October 2001, have been adjusted to reflect this share split.

<i>Director</i>	<i>Date of grant</i>	<i>At 1 November 2000</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>At 31 October 2001</i>	<i>Exercise Period</i>	<i>Exercise Price</i>
S V Phillips	03.10.96	30,000	—	(30,000)	—	03.10.99 – 02.10.02	40p
	15.09.97	80,000	—	(80,000)	—	15.09.00 – 14.09.03	78p
	25.09.98	80,000	—	—	80,000	25.09.01 – 24.09.04	117p
	08.11.99	80,000	—	—	80,000	08.11.02 – 07.11.05	343.5p
	02.10.00	75,000	—	—	75,000	02.10.03 – 01.10.06	566.5p
N R Cartwright	15.09.97	80,000	—	—	80,000	15.09.00 – 14.09.03	78p
	25.09.98	80,000	—	—	80,000	25.09.01 – 24.09.04	117p
	08.11.99	80,000	—	—	80,000	08.11.02 – 07.11.05	343.5p
	02.10.00	75,000	—	—	75,000	02.10.03 – 01.10.06	566.5p
C C Child	24.01.01	—	400,000	—	400,000	24.01.04 – 23.01.07	505p
	28.06.01	—	200,000	—	200,000	28.12.04 – 27.12.07	600p

The aggregate amount of gains made during the year ended 31 October 2001 by Directors on the exercise of share options was £572,000.

Under the same Scheme, the following options were also granted to Directors on 19 November 2001:

<i>Director</i>	<i>Date of grant</i>	<i>No. of shares</i>	<i>Exercise period</i>	<i>Exercise Price</i>
S V Phillips	19.11.01	100,000	19.11.04 – 18.11.07	423.5p
N R Cartwright	19.11.01	100,000	19.11.04 – 18.11.07	423.5p

4. Information Regarding Directors and Employees (continued)

The following options were also granted and are exercisable under the Fitness First Plc 2000 Executive Approved Share Option Scheme:

Director	Date of grant	At 1 November 1999	Granted during year	Exercised during year	At 31 October 2000	Exercise Period	Exercise Price
S V Phillips	02.10.00	—	2,500	—	2,500	02.10.03 – 01.10.06	1145p
N R Cartwright	07.10.00	—	2,500	—	2,500	02.10.03 – 01.10.06	1145p

Director	Date of grant	At 1 November 2000	Granted during year	Exercised during year	At 31 October 2001	Exercise Period	Exercise Price
S V Phillips	02.10.00	5,000	—	—	5,000	02.10.03 – 01.10.06	572.5p
N R Cartwright	07.10.00	5,000	—	—	5,000	02.10.03 – 01.10.06	572.5p

Average number of persons (including Directors) employed by the Group in the year:	1999	2000	2001
Office and management	52	195	457
Operations staff	1,086	3,010	4,925
	<u>1,138</u>	<u>3,205</u>	<u>5,382</u>

Staff costs (including Directors) incurred during the year in respect of these employees were:	1999 £000	2000 £000	2001 £000
Wages and salaries	8,097	19,667	38,694
Social Security costs	550	1,503	3,048
Other pension costs	23	102	724
	<u>8,670</u>	<u>21,272</u>	<u>42,466</u>

5. Operating Profit

	1999 £000	2000 £000	2001 £000
Operating profit is stated after charging:			
Depreciation and other amounts written off tangible and intangible fixed assets:			
Owned assets	1,522	4,269	9,717
Leased assets	707	1,488	1,838
Goodwill amortisation	—	1,462	2,441
Rentals under operating leases:			
Land and buildings	1,290	5,005	13,865
Fitness equipment	838	1,540	1,747
Motor vehicles	87	278	495
Auditors' remuneration:			
Audit fees	40	132	204
Other services	67	68	87
	<u>67</u>	<u>68</u>	<u>87</u>

In addition the auditors were paid £16,000 and £106,000 in respect of work carried out on acquisitions made during the years ended 31 October 2001 and 31 October 2000 respectively and £32,500 in respect of a placing of shares in the year ended 31 October 1999.

6. Interest Payable and Similar Charges

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank loans and overdrafts	713	638	2,883
Finance leases and hire purchase contracts	237	433	525
	<u>950</u>	<u>1,071</u>	<u>3,408</u>

7. Taxation

	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
United Kingdom corporation tax at 30%	182	578	1,228
Overseas tax	339	554	1,834
	<u>521</u>	<u>1,132</u>	<u>3,062</u>

The tax charge is disproportionately low due to the non-provision of deferred tax and the availability of losses brought forward from previous years.

8. Earnings per Share

The earnings and weighted average number of shares used in the calculation of earnings per share are as follows:

	<i>1999</i>			<i>2000</i>			<i>2001</i>		
	<i>Earnings</i>	<i>Shares</i>	<i>EPS</i>	<i>Earnings</i>	<i>Shares</i>	<i>EPS</i>	<i>Earnings</i>	<i>Shares</i>	<i>EPS</i>
	<i>£000</i>	<i>'000</i>	<i>Pence</i>	<i>£000</i>	<i>'000</i>	<i>Pence</i>	<i>£000</i>	<i>'000</i>	<i>Pence</i>
Basic-before goodwill amortisation	5,588	73,428	7.6	11,646	92,122	12.6	17,186	96,339	17.8
Goodwill amortisation	—	—	—	(1,481)	—	(1.6)	(2,460)	—	(2.5)
Basic	5,588	73,428	7.6	10,165	92,122	11.0	14,726	96,339	15.3
Effect of dilutive share options	—	1,152	(0.1)	—	1,686	(0.2)	—	2,088	(0.3)
Diluted	<u>5,588</u>	<u>74,580</u>	<u>7.5</u>	<u>10,165</u>	<u>93,808</u>	<u>10.8</u>	<u>14,726</u>	<u>98,427</u>	<u>15.0</u>

Earnings are calculated as profits after taxation and minority interests for the year. The weighted average number of shares used in the above calculation includes the effects of the shares to be issued (see note 21) and the share split which took place on 28 February 2001.

9. Intangible Fixed Assets

	<i>Goodwill</i> <i>£000</i>
Cost	
At 1 November 1999	—
Additions (note 12)	45,713
Exchange adjustment	(138)
At 31 October 2000	<u>45,575</u>
Amortisation	
At 1 November 1999	—
Charge for the year	1,481
At 31 October 2000	<u>1,481</u>
Net book value	
At 31 October 2000	<u>44,094</u>
At 31 October 1999	<u>—</u>
	<i>Goodwill</i> <i>£000</i>
Cost	
At 1 November 2000	45,575
Additions	3,777
Exchange adjustment	1,542
At 31 October 2001	<u>50,894</u>
Amortisation	
At 1 November 2000	1,481
Charge for the year	2,460
Exchange adjustment	4
At 31 October 2001	<u>3,945</u>
Net book value	
At 31 October 2001	<u>46,949</u>
At 31 October 2000	<u>44,094</u>

Goodwill additions include £359,000 in respect of additional consideration for acquisitions made in the year ended 31 October 2000.

10. Tangible Fixed Assets

	<i>Land & Buildings</i> £000	<i>Fitness Equipment</i> £000	<i>Fixtures, Fittings & Equipment</i> £000	<i>Computer Equipment</i> £000	<i>Motor Vehicles</i> £000	<i>Total</i> £000
Cost						
At 1 November 1999	61,644	4,689	2,106	1,021	150	69,610
Exchange adjustment	(335)	(227)	(69)	(65)	(4)	(700)
Businesses acquired	7,792	3,995	1,279	1,619	165	14,850
Additions	44,334	8,595	2,540	1,965	62	57,496
Disposals	(55)	(391)	(19)	(45)	(137)	(647)
At 31 October 2000	<u>113,380</u>	<u>16,661</u>	<u>5,837</u>	<u>4,495</u>	<u>236</u>	<u>140,609</u>
Accumulated depreciation						
At 1 November 1999	2,316	1,086	343	380	116	4,241
Exchange adjustment	(20)	(39)	(7)	(14)	(2)	(82)
Businesses acquired	994	723	143	570	91	2,521
Charge for the year	2,581	2,013	420	727	16	5,757
Disposals	—	(200)	(7)	(33)	(95)	(335)
At 31 October 2000	<u>5,871</u>	<u>3,583</u>	<u>892</u>	<u>1,630</u>	<u>126</u>	<u>12,102</u>
Net book value						
At 31 October 2000	<u>107,509</u>	<u>13,078</u>	<u>4,945</u>	<u>2,865</u>	<u>110</u>	<u>128,507</u>
At 31 October 1999	<u>59,328</u>	<u>3,603</u>	<u>1,763</u>	<u>641</u>	<u>34</u>	<u>65,369</u>

	<i>Land & Buildings</i> £000	<i>Fitness Equipment</i> £000	<i>Fixtures, Fittings & Equipment</i> £000	<i>Computer Equipment</i> £000	<i>Motor Vehicles</i> £000	<i>Total</i> £000
Cost						
At 1 November 2000	113,380	16,661	5,837	4,495	236	140,609
Exchange adjustment	403	246	73	76	6	804
Businesses acquired	3,320	3,067	1,077	560	—	8,024
Additions	99,617	18,006	5,654	2,638	542	126,457
Disposals	(60)	(106)	(22)	(3)	(36)	(227)
At 31 October 2001	<u>216,660</u>	<u>37,874</u>	<u>12,619</u>	<u>7,766</u>	<u>748</u>	<u>275,667</u>
Accumulated depreciation						
At 1 November 2000	5,871	3,583	892	1,630	126	12,102
Exchange adjustment	28	37	2	21	1	89
Businesses acquired	265	681	227	241	—	1,414
Charge for the year	4,570	4,198	1,162	1,511	114	11,555
Disposals	—	(71)	(10)	(2)	(32)	(115)
At 31 October 2001	<u>10,734</u>	<u>8,428</u>	<u>2,273</u>	<u>3,401</u>	<u>209</u>	<u>25,045</u>
Net book value						
At 31 October 2001	<u>205,926</u>	<u>29,446</u>	<u>10,346</u>	<u>4,365</u>	<u>539</u>	<u>250,622</u>
At 31 October 2000	<u>107,509</u>	<u>13,078</u>	<u>4,945</u>	<u>2,865</u>	<u>110</u>	<u>128,507</u>

10. Tangible Fixed Assets (continued)

The net book value of land and buildings comprises:

	1999 £000	2000 £000	2001 £000
Freehold	27,432	40,888	57,989
Long leasehold	2,999	6,231	14,880
Short leasehold	28,897	60,390	133,057
	<u>59,328</u>	<u>107,509</u>	<u>205,926</u>

Long leaseholds are those leaseholds with more than 50 years unexpired. Included in land and buildings in the year ended 31 October 2001 are properties in the course of construction amounting to £22,086,000 (2000: £10,773,000; 1999: £12,404,000).

The net book value of fixed assets in the year ended 31 October 2001 includes £9,181,000 (2000: £9,321,000; 1999: £3,789,000) in respect of fixtures, fittings and equipment held under finance leases and hire purchase contracts.

11. Fixed Asset Investments

	<i>Investment in joint ventures</i> £000	<i>Investment in loan notes in joint venture</i> £000	<i>Investment in associated undertakings</i> £000	<i>Loans to associated undertakings</i> £000	<i>Total</i> £000
At 1 November 1999	2,981	737	57	—	3,775
Exchange adjustments	(117)	(35)	(49)	—	(201)
Additions	—	—	634	377	1,011
Retained profits for the year	153	—	(177)	—	(24)
Eliminated on acquisition of subsidiary	(2,364)	(702)	—	—	(3,066)
At 31 October 2000	<u>653</u>	<u>—</u>	<u>465</u>	<u>377</u>	<u>1,495</u>

	<i>Investment in joint venture</i> £000	<i>Investment in associated undertakings</i> £000	<i>Loans to associated undertakings</i> £000	<i>Total</i> £000
At 1 November 2000	653	465	377	1,495
Exchange adjustments	—	—	(15)	(15)
Additions	—	—	790	790
Retained profits for the year	94	(141)	—	(47)
At 31 October 2001	<u>747</u>	<u>324</u>	<u>1,152</u>	<u>2,223</u>

	1999 £000	2000 £000	2001 £000
Investments in joint ventures:			
Share of gross assets	6,285	761	813
Share of gross liabilities	(3,304)	(108)	(66)
	<u>2,981</u>	<u>653</u>	<u>747</u>

11. Fixed Asset Investments (continued)

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

<i>Name of Company</i>	<i>Country of incorporation or registration</i>	<i>Proportion of ordinary shares held</i>
Principal subsidiaries:		
Fitness First Clubs Limited	UK	100% directly
Fitness Company Freizeitanlagen GmbH	Germany	100% directly
SPORTathlon Holdings Limited	Hong Kong	90% directly
Fitness First Australia Pty Limited	Australia	85% directly
Associates:		
Fitness First (Hartlepool) Limited	UK	20% directly
Passage Invest NV	Belgium	40% directly
Joint venture:		
Fitness First Berkeley Limited	UK	50% directly

All the above companies are engaged in the Group's principal activity.

12. Acquisitions

(i) Passage Invest NV

On 4 November 1999 the Company acquired 40 per cent. of the issued ordinary share capital of Passage Invest NV for a cash consideration of £1,021,000 with goodwill arising of £388,000.

(ii) Fitness Company Freizeitanlagen GmbH

On 25 February 2000, the Company acquired the remaining 50 per cent. of the issued share capital of Fitness Company Freizeitanlagen GmbH, for a consideration of £40,905,000 including expenses. The consideration was satisfied by the issue of 1,149,200 ordinary shares and a further 2,250,800 ordinary shares to be issued, before reflecting the 28 February 2001 share split, as detailed in note 21.

In calculating the goodwill arising on acquisition, the fair values of the net assets acquired have been assessed and certain value adjustments made to book value at the acquisition date as follows:

	<i>Book value</i>	<i>Alignment of accounting policies</i>	<i>Other fair value adjustments</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Intangible fixed assets – goodwill	590	—	—	590
Tangible fixed assets	8,709	2,264	—	10,973
Current assets	3,903	—	(156)	3,747
Liabilities due within one year	(4,197)	(466)	—	(4,663)
Liabilities due after more than one year	(4,687)	(1,232)	—	(5,919)
	<u>4,318</u>	<u>566</u>	<u>(156)</u>	<u>4,728</u>
Goodwill				<u>45,152</u>
				<u>49,880</u>
Satisfied by:				
Cash				7,800
Shares				15,070
Shares to be issued				27,010
				<u>49,880</u>

£6,728,000 of the total goodwill arising on this acquisition had been previously written off directly to profit and loss reserves, following the Company's initial acquisition of 50 per cent. of the issued share capital of Fitness Company Freizeitanlagen GmbH in 1998.

12. Acquisitions (continued)

The summarised results of Fitness Company Freizeitanlagen GmbH prior to its acquisition as a subsidiary undertaking in the year were as follows:

	<i>1 January 2000 to 25 February 2000 £000</i>	<i>Year ended 31 December 1999 £000</i>
Turnover	2,189	9,567
Operating profit	260	1,125
Profit before tax	224	1,039
Taxation	(133)	(498)
Profit after tax	91	541

On 13 April 2000, Fitness Company Freizeitanlagen GmbH purchased the trade and assets of five fitness studios in Berlin for a consideration of £3,125,000, £2,192,000 of which was paid on completion with the balance subject to an earnout agreement based on future profits. The goodwill arising on this transaction was £4,107,000.

(iii) SPORTathlon Holdings Limited

On 29 June 2000, the Group acquired 90 per cent. of the issued share capital of SPORTathlon Holdings Limited for a cash consideration of £3,248,000. In calculating the goodwill arising on acquisition, the fair values of the net assets acquired have been assessed and certain adjustments made to book value at the acquisition date as follows:

	<i>Book value £000</i>	<i>Alignment of accounting policies £000</i>	<i>Other fair value adjust- ments £000</i>	<i>Fair value £000</i>
Fixed assets	1,309	46	—	1,355
Current assets	2,016	—	(39)	1,977
Liabilities due within one year	(2,139)	—	(33)	(2,172)
	<u>1,186</u>	<u>46</u>	<u>(72)</u>	<u>1,160</u>
Share of net assets acquired				1,044
Goodwill				2,204
Cash consideration				<u>3,248</u>

The losses after taxation and minority interests of the SPORTathlon group were as follows:

	<i>1 January 2000 to 29 June 2000 £000</i>	<i>Year ended 31 December 1999 £000</i>
Loss after taxation and minority interests	(302)	(162)

12. Acquisitions (continued)

(iv) Fitness First Australia Pty Limited

On 1 November 2000, the company acquired 85 per cent. of the issued share capital of Fitness First Australia Pty Limited, which on the same day acquired the trade and assets of an Australian fitness club operation for a consideration of £5,047,000 including expenses. The net assets acquired amounted to £4,942,000 and other fair value adjustments at the acquisition date, including obligations to service existing members, amounted to £3,313,000. The goodwill arising on this transaction was £3,418,000.

13. Stocks

	2000 £000	2001 £000
Finished goods and goods for resale	1,297	2,697

14. Debtors

	2000 £000	2001 £000
Trade debtors	1,659	1,891
Amounts owed by joint venture and associated undertakings	166	149
Other debtors	605	3,667
Prepayments	1,081	2,230
Value Added Tax	426	4,376
	<u>3,937</u>	<u>12,313</u>

Included within other debtors is an amount of £600,000 which is receivable after more than one year. This is a 10 year secured loan to a third party, on normal commercial terms, relating to a marketing and sponsorship agreement.

15. Creditors: Amounts falling due within one year

	2000 £000	2001 £000
Bank overdrafts (note 17)	4,575	1,758
Bank loans (note 17)	1,860	2,234
Loan notes (note 17)	—	712
Obligations under finance leases and hire purchase contracts (note 17)	3,231	3,328
Trade creditors	6,844	25,696
Corporation tax	1,882	3,047
Other creditors including taxation and Social Security	819	2,722
Accruals and deferred income	11,077	17,423
	<u>30,288</u>	<u>56,920</u>

16. Creditors: Amounts falling due after more than one year

	2000 £000	2001 £000
Bank loans (note 17)	13,838	100,083
Loan notes (note 17)	672	—
Obligations under finance leases and hire purchase contracts (note 17)	3,541	1,876
Accruals and deferred income	1,086	2,318
	<u>19,137</u>	<u>104,277</u>

17. Borrowings

	2000 £000	2001 £000
Bank overdrafts	4,575	1,758
Bank loans	15,698	102,317
Loan notes	672	712
Obligations under finance leases and hire purchase contracts	6,772	5,204
	<u>27,717</u>	<u>109,991</u>
Due within one year	9,666	8,032
Due after more than one year	18,051	101,959
	<u>27,717</u>	<u>109,991</u>
Analysis of loan repayments		
Bank loans and overdrafts:		
Within one year or on demand	6,435	3,992
Between one and two years	1,198	1,276
Between two and five years	1,788	97,814
After five years	10,852	993
Loan notes:		
Within one year or on demand	—	712
Between two and five years	672	—
Obligations under finance leases and hire purchase contracts:		
Within one year or on demand	3,231	3,328
Between one and two years	2,507	1,351
Between two and five years	1,034	525
	<u>27,717</u>	<u>109,991</u>
Amounts partly repayable after five years		
Bank loans:		
Total amount	<u>11,148</u>	<u>4,231</u>

The bank overdraft is secured by a mortgage debenture over one of the Group's freehold properties. The finance leases and hire purchase contracts are secured on the assets concerned.

18. Derivatives and other Financial Instruments

The Group's financial instruments comprise borrowings, cash and various non-derivative financial instruments such as trade debtors and trade creditors. As permitted by Financial Reporting Standard No. 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"), short-term debtors and creditors have been excluded from all FRS 13 disclosures.

The Group uses financial instruments to manage interest rate, liquidity and currency exposure risk wherever it is appropriate to do so and without exposing the Group to undue risk or speculation. The policy is kept under review by the Directors.

The total undrawn committed borrowing facilities at the year end amounted to £81,439,000 (2000 – £45,000,000).

Expiry date	2001 £000	2000 £000
In one year or less	—	20,000
In more than one year but not more than two years	—	—
In more than two years	81,439	25,000
Total	<u>81,439</u>	<u>45,000</u>

18. Derivatives and other Financial Instruments (continued)

Risk management

The risks arising from the Group's operations are explained below:

Interest rate risk

Interest bearing financial assets comprise cash, other loans, and other deposits and receivables. Interest bearing financial liabilities comprise bank overdrafts, bank loans, loan notes issued as part of acquisitions and net obligations under finance leases and other payables.

The interest rate risk profile of the Group's financial assets and liabilities is as follows:

Financial assets

Year ended 31 October 2001

	<i>Non-interest bearing £000s</i>	<i>Floating rate £000</i>	<i>Fixed rate £000</i>	<i>Total £000</i>
Sterling	71	2,024	—	2,095
Euro	117	5,157	—	5,274
Hong Kong dollar	275	1,914	—	2,189
Australian dollar	233	1,193	—	1,426
	<u>696</u>	<u>10,288</u>	<u>—</u>	<u>10,984</u>

Disclosed as:

Cash at bank and in hand				10,384
Other debtor – loan receivable after more than one year				600
				<u>10,984</u>

Year ended 31 October 2000

	<i>Non-interest bearing £000s</i>	<i>Floating rate £000</i>	<i>Fixed rate £000</i>	<i>Total £000</i>
Sterling	—	229	2,832	3,061
Euro	—	6,712	356	7,068
Hong Kong dollar	328	150	—	478
Australian dollar	—	7,250	—	7,250
	<u>328</u>	<u>14,341</u>	<u>3,188</u>	<u>17,857</u>

Disclosed as:

Cash at bank and in hand				17,857
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Interest on floating rate assets is based on the relevant national inter-bank rates.

18. Derivatives and other Financial Instruments (continued)

Financial liabilities

Year ended 31 October 2001

	<i>Floating rate £000</i>	<i>Fixed rate £000</i>	<i>Total £000</i>	<i>Weighted average period to maturity Years</i>	<i>Weighted average interest rate %</i>
Sterling	8,831	—	8,831	2.0	5.9
Euro	52,860	37,466	90,326	3.1	5.1
Hong Kong dollar	5,466	—	5,466	3.1	3.4
Australian dollar	4,405	—	4,405	2.6	5.6
Other	963	—	963	0.5	3.3
	<u>72,525</u>	<u>37,466</u>	<u>109,991</u>	<u>3.0</u>	<u>5.1</u>
Disclosed as:					
Bank overdrafts			1,758		
Bank loans			102,317		
Loan notes			712		
Obligations under finance lease and hire purchase contracts			5,204		
			<u>109,991</u>		

Year ended 31 October 2000

	<i>Floating rate £000</i>	<i>Fixed rate £000</i>	<i>Total £000</i>	<i>Weighted average period until maturity Years</i>	<i>Weighted average interest rate %</i>
Sterling	7,299	9,849	17,148	0.3	6.9
Euro	4,048	5,893	9,941	5.0	5.5
Singapore dollar	628	—	628	0.1	3.8
	<u>11,975</u>	<u>15,742</u>	<u>27,717</u>	<u>2.0</u>	<u>6.3</u>
Disclosed as:					
Bank overdrafts			4,575		
Bank loans			15,698		
Loan notes			672		
Obligations under finance lease and hire purchase contracts			6,772		
			<u>27,717</u>		

Interest on floating rate liabilities is based on the relevant national inter-bank rates.

18. Derivatives and other Financial Instruments (continued)

Liquidity risk

The Group's funds are principally held either as cash or short term deposits. Short term debtors and creditors have been excluded from the disclosures as permitted by FRS 13.

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals was as follows:

	2001 £000	2000 £000
In one year or less, or on demand	8,032	9,666
In more than one year but not more than two years	2,627	3,705
In more than two years but not more than five years	98,339	3,494
In more than five years	993	10,852
	<u>109,991</u>	<u>27,717</u>

Fair values of financial assets and liabilities

A summary of the fair values and book values of the Group's financial assets and liabilities is noted below. Fair values have been calculated by discounting expected future cash flows at the prevailing interest rates.

	<i>Carrying amount</i> 2001 £000	<i>Carrying amount</i> 2000 £000	<i>Estimated fair value</i> 2001 £000	<i>Estimated fair value</i> 2000 £000
Financial liabilities				
Loan notes	712	672	712	672
Bank loans	102,317	15,698	102,317	15,698
Bank overdrafts	1,758	4,575	1,758	4,575
Obligations under finance leases and hire purchase contracts	5,204	6,772	5,204	6,772
	<u>109,991</u>	<u>27,717</u>	<u>109,991</u>	<u>27,717</u>
Financial assets				
Cash at bank and in hand – short term deposits	—	3,188	—	3,188
Cash at bank and in hand – other	10,384	14,669	10,384	14,669
Other loans	600	—	600	—
	<u>10,984</u>	<u>17,857</u>	<u>10,984</u>	<u>17,857</u>
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps	—	—	(940)	—

18. Derivatives and other Financial Instruments (continued)

Currency risk

The Group's currency risk exposure arises principally through currency borrowings specifically undertaken for foreign equity investments (as defined by SSAP20). Gains and losses on these investments are taken to the statement of total recognised gains and losses.

Other currency exposures arise through intra-Group loans and trading balances, principally in Europe and the Far East and Australia. Natural hedging is employed, where possible, to minimise net exposures.

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved, other than those borrowings treated as hedges of foreign equity investments. These exposures were as follows:

Currency Exposures

	<i>Net foreign currency monetary assets/(liabilities)</i>				
	<i>Sterling</i>	<i>Euro</i>	<i>Australian</i>	<i>Hong Kong</i>	<i>Total</i>
<i>31 October 2001</i>	<i>£000</i>	<i>£000</i>	<i>dollar</i>	<i>dollar</i>	<i>£000</i>
Net cash position	—	—	—	—	—

Currency Exposures

	<i>Net foreign currency monetary assets/(liabilities)</i>				
	<i>Sterling</i>	<i>Euro</i>	<i>Australian</i>	<i>Hong Kong</i>	<i>Total</i>
<i>31 October 2000</i>	<i>£000</i>	<i>£000</i>	<i>dollar</i>	<i>dollar</i>	<i>£000</i>
Net cash position	—	4,477	7,250	—	11,727

19. Provisions for Liabilities and Charges

The amounts of deferred taxation provided and unprovided in the accounts are as follows:

	<i>Provided</i>	<i>Provided</i>	<i>Not</i>	<i>Not</i>
	<i>2000</i>	<i>2001</i>	<i>provided</i>	<i>provided</i>
	<i>£000</i>	<i>£000</i>	<i>2000</i>	<i>2001</i>
			<i>£000</i>	<i>£000</i>
Capital allowances in excess of depreciation	—	—	8,408	12,821
Finance leases	—	—	26	16
Revenue losses	—	—	(16)	(1,047)
	—	—	8,418	11,790

20. Called Up Share Capital

	<i>Number of shares</i>		<i>Nominal value</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
	<i>000</i>	<i>000</i>	<i>£000</i>	<i>£000</i>
Authorised				
Ordinary 12.5p shares	120,000	122,160	15,000	15,270
Allotted, called up and fully paid				
Ordinary 12.5p shares	91,660	91,971	11,457	11,496

20. Called Up Share Capital (continued)

Movements in share capital during the two year period ended 31 October 2001 were as follows:

- (i) On 25 February 2000 the Company issued 1,149,200 shares to part fund the acquisition of the remaining 50 per cent. of Fitness Company Freizeitanlagen GmbH.
- (ii) On 25 February 2000 the Company raised £25,364,160 before costs from the placing of 2,113,680 shares at 1200p per share, in order to finance the growth of the business through the acquisition and development of further clubs.
- (iii) On 25 February 2000 100,000 shares were issued at 138p, and 50,000 shares at 80p, following the exercise of share options.
- (iv) On 30 September 2000 143,750 shares were issued at 155.5p following the exercise of share options.
- (v) On 28 February 2001 the Company resolved that each 25p ordinary share be sub-divided into two new ordinary shares of 12.5p each.
- (vi) On 26 March 2001 the Company issued 180,500 shares for a cash consideration of 78p each following the exercise of share options.
- (vii) On 23 April 2001 the Company issued 30,000, 80,000 and 20,000 shares for a cash consideration of 40p, 78p and 137.5p each respectively following the exercise of share options.

Under the Company's 1996 Executive Share Option Scheme, Directors and employees held options as follows:

<i>Date of grant</i>	<i>At 1</i>			<i>At 31</i>		
	<i>November 1999</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>October 2000</i>	<i>Exercise period</i>	<i>Exercise price</i>
03.10.96	65,000	—	(50,000)	15,000	03.10.99 – 02.10.02	80p
31.01.97	100,000	—	(100,000)	—	31.01.00 – 30.01.03	138p
15.09.97	340,000	—	(143,750)	196,250	15.09.00 – 14.09.03	155.5p
14.04.98	20,000	—	—	20,000	14.04.01 – 13.04.04	275p
25.09.98	375,000	—	—	375,000	25.09.01 – 24.09.04	234p
08.11.99	—	815,000	—	815,000	08.11.02 – 07.11.05	687p
02.10.00	—	75,000	—	75,000	02.10.03 – 01.10.06	1133p
	<u>900,000</u>	<u>890,000</u>	<u>(293,750)</u>	<u>1,496,250</u>		

<i>Date of grant</i>	<i>At 1</i>			<i>At 31</i>		
	<i>November 2000*</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>October 2001</i>	<i>Exercise period</i>	<i>Exercise price</i>
03.10.96	30,000	—	(30,000)	—	03.10.99 – 02.10.02	40p
15.09.97	392,500	—	(260,500)	132,000	15.09.00 – 14.09.03	78p
14.04.98	40,000	—	(20,000)	20,000	14.04.01 – 13.04.04	137.5p
25.09.98	750,000	—	—	750,000	25.09.01 – 24.09.04	117p
08.11.99	1,630,000	—	—	1,630,000	08.11.02 – 07.11.05	343.5p
02.10.00	150,000	—	—	150,000	02.10.03 – 01.10.06	566.5p
24.01.01	—	400,000	—	400,000	24.01.04 – 23.01.07	505p
28.06.01	—	200,000	—	200,000	28.12.04 – 27.12.07	600p
11.10.01	—	1,263,500	—	1,263,500	11.10.04 – 10.10.07	397.5p
	<u>2,992,500</u>	<u>1,863,500</u>	<u>(310,500)</u>	<u>4,545,500</u>		

* Adjusted for the 28 February 2001 share split.

21. Reserves (continued)

The cumulative amount of goodwill written off directly to profit and loss reserves at 31 October 2000 and 31 October 2001 amounted to £7,817,000.

Shares to be issued arise under the terms of the acquisition of Fitness Company Freizeitanlagen GmbH in March 2000, which provided for the vendors and the Company to have the right to exercise a put and call option between February 2001 and December 2003 over the remaining shares in Fitness Company Freizeitanlagen GmbH. This option was exercised on 31 January 2002, as detailed in note 28.

22. Capital commitments

	2000	2001
	£000	£000
Contracted for but not provided	6,093	16,776

23. Operating lease commitments

At 31 October 2000 and 31 October 2001 the Group was committed to making the following payments during the next year in respect of operating leases:

	<i>Land and buildings</i>		<i>Other</i>	
	2000	2001	2000	2001
	£000	£000	£000	£000
Leases which expire:				
Within one year	24	82	43	200
Within two to five years	696	1,668	2,125	809
After five years	6,680	20,272	24	961
	<u>7,400</u>	<u>22,022</u>	<u>2,192</u>	<u>1,970</u>

24. Directors' Interests in Transactions

There were no contracts of significance with any Director during the period other than as disclosed in note 4.

25. Contingent Liabilities

There were no contingent liabilities at 31 October 2001 (2000 – £nil).

26. Pension Schemes

There is no Group pension scheme although the Group does make contributions on behalf of certain Directors and employees, which are disclosed in note 4.

27. Related Party Transactions

All intercompany trading has been eliminated upon consolidation of the Group accounts. There were no other related party transactions during the three years ended 31 October 2001.

28. Post Balance Sheet Events

In November 2001 the Company exercised its option under the original terms of the acquisition to increase its shareholding in Passage Invest NV from 40 per cent. to 52 per cent. for nil consideration.

On 31 January 2002, a further 4,501,600 shares in the Company were issued on exercise of the put and call option referred to in note 21.

PART 6

ADDITIONAL INFORMATION

1. The Company

- 1.1 The Company is incorporated and registered in England. The registered office and head office of the Company is at 58 Fleets Lane, Poole, Dorset, BH15 3BT.
- 1.2 The Company is a holding company of a group of companies, the principal activity of which is the ownership and management of health and fitness clubs. Its principal subsidiaries are as follows:

<i>Name</i>	<i>Principal Activity</i>	<i>Issued Share Capital</i>	<i>Percentage ownership</i>
Fitness First Clubs Limited	Ownership and management of health and fitness clubs	2 ordinary shares of £1	100
The Fitness Company Freizeitanlagen GmbH	Ownership and management of health and fitness clubs	10,000,000 ordinary shares of DM1	100
SPORTathlon Holdings Limited	Ownership and management of health and fitness clubs	600,000 ordinary shares of HK\$1 each	90
Fitness First Australia Pty Limited	Ownership and management of health and fitness clubs	10,000,000 ordinary shares of Aus\$1 each	85

Fitness First Clubs Limited is incorporated in England and Wales with its registered office at 58 Fleets Lane, Poole, Dorset BH15 3BT and with registered number 3207791. The Fitness Company Freizeitanlagen GmbH is a company incorporated in Germany, and is registered in the commercial register of the local court of Frankfurt am Main under number HRB 30512. SPORTathlon Holdings Limited is a company incorporated in Hong Kong with its registered office at Room 2401-2, 24/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong and with registered number 148241. Fitness First Australia Pty Limited is a company incorporated in Australia with its registered office at Bondi Junction, NSW 2022 and with registered number 094778 622.

2. Share Capital

- 2.1 On 26 February 2002, 18,750,000 New Ordinary Shares will, subject to Admission, be issued pursuant to the Placing and the Open Offer at a price of 412p per new Ordinary Share.
- 2.2 The New Ordinary Shares will be issued at a premium of 399.5p to their nominal value.
- 2.3 The existing Ordinary Shares are, and the New Ordinary Shares will be, listed on the Official List.
- 2.4 The existing Ordinary Shares are, and the New Ordinary Shares will be, in registered form and capable of being held in uncertificated form.
- 2.5 Application has been made for Admission and it is expected that dealings in the New Ordinary Shares will commence on 26 February 2002.
- 2.6 Save in respect of the Placing and the Open Offer, none of the New Ordinary Shares has been marketed or is available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the Official List.
- 2.7 In connection with the Placing and the Open Offer, temporary documents of title will not be issued. However, it is expected that share certificates, for those who wish to receive them, will be posted first class to such Shareholders by 5 March 2002.

2.8 At the EGM, resolutions will be proposed:

- (a) to authorise the Directors, pursuant to section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £2,343,750 and to empower the Directors to allot equity securities (as defined in section 94(2) of the Act) pursuant to that authority as if section 89(1) of the Act did not apply to such allotment, provided that this authority and power shall be limited to the allotment of equity securities in connection with the Placing and the Open Offer, such power to expire on 31 December 2002; and
- (b) subject to the passing of the resolution referred to in (a) above and the allotment and issue of the New Ordinary Shares and in substitution for all previously granted but unutilised authorities (other than those conferred by the resolution referred to in (a) above):
 - (i) to increase the authorised share capital of the Company from £15,270,000 to £19,880,000 by the creation of an additional 36,880,000 Ordinary Shares; and
 - (ii) to authorise the Directors generally and unconditionally pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £4,795,000 provided that this authority shall expire five years from the date of the passing of the resolution save that the Company may before such expiry make offers, agreements or other arrangements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers, agreements or other arrangements as if the authority so conferred had not expired.
- (c) subject to the passing of the resolution referred to in (b) above and subject as provided therein, to empower the Directors pursuant to section 95 of the Act to allot equity securities (within the meaning of the Act) pursuant to the authority conferred by the resolution referred to in (b) above as if sub-section (1) of section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (i) the allotment of equity securities in connection with issues by way rights; and
 - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £720,141,

and shall expire five years from the passing of the resolution.

- 2.9 The articles of association of the Company are, in all respects, consistent with (a) the holding of Ordinary Shares in uncertificated form, (b) the transfer of title to Ordinary Shares by means of a relevant system and (c) The Uncertificated Securities Regulations 1995 (SI 1995 No. 3272). Accordingly, the Directors have resolved to permit the holding of Ordinary Shares in uncertificated form and the transfer of title to Ordinary Shares by means of a relevant system. For these purposes CREST is a relevant system.
- 2.10 The New Ordinary Shares will be allotted pursuant to the authorities conferred by the resolution referred to in paragraph 2.8(a) above.
- 2.11 (a) As at the date of this document, the Company has an authorised share capital of £15,270,000 comprising 122,160,000 Ordinary Shares of which 96,472,610 Ordinary Shares have been issued and are fully paid.
- (b) The authorised share capital of the Company following the passing of the resolutions referred to in paragraph 2.8(b) above will be £19,880,000 divided into 159,040,000 Ordinary Shares of which 115,222,610 Ordinary Shares have been issued or will, pursuant to the Placing and the Open Offer, be issued and are, or will be, fully paid or credited as fully paid.
- (c) The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders right of pre-emption in respect of the allotment of equity securities (as defined in section 89(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued share capital except to the extent disapplied by the resolutions referred to in paragraph 2.8(c) above.
- 2.12 As at 30 January 2002 (the latest practicable date prior to the publication of this document), options to subscribe for 5,453,500 Ordinary Shares are outstanding under the Share Option Schemes.
- 2.13 Save as disclosed in this Part 6, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed, conditionally or unconditionally to be put under option.

3. Articles of Association

3.1 The Articles of Association of the Company (the "Articles") contain provisions, *inter alia*, to the following effect:

(a) Voting Rights

- (i) Subject to the rights attached to any class of shares, Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.
- (ii) No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the Directors with a restriction notice in the manner described in paragraph (d) below.

(b) Dividends and Distributions on Liquidation to Shareholders

- (i) The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Subject to any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid. There is no fixed date on which dividends are paid.
- (ii) Subject to the provisions of the Act and any other act relating to the Company (the "Statutes"), the Directors may pay such interim dividends as they think fit and may pay the fixed dividends on any shares of the Company half-yearly or otherwise on fixed dates.
- (iii) No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Statutes.
- (iv) On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members in specie or kind the whole or any part of the assets of the Company and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out.
- (v) The Directors may, with the sanction of an ordinary resolution of the Company in general meeting, offer the holders of Ordinary Shares the right to elect to receive new Ordinary Shares credited as fully paid instead of cash in respect of the whole or part of any dividend.
- (vi) Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.

(c) Issue of shares

Save as otherwise provided in the Statutes or in the Articles, all unissued shares (whether forming part of the original or any increased capital) shall be at the disposal of the Directors who may (subject to the provisions of the Statutes) allot (with or without conferring a right of renunciation), grant options, offer or otherwise deal with or dispose of them to such persons at such times and generally on such terms and conditions as they may determine.

(d) Restrictions on Ordinary Shares

If a member or any person appearing to be interested in shares in the Company has been duly served with a notice pursuant to section 212 of the Act and is in default in supplying to the Company information thereby required within a prescribed period after the service of such notice, the Directors may serve on such member or on any such person a notice (a "restriction notice") in respect of the shares in relation to which the default occurred and any other shares held at the date of the restriction notice by the member, or such of them as the Directors may determine, (the "restricted shares") directing that the member or any transferee shall not be entitled to be present or to vote either in person or by proxy at any general meeting or class meeting of the Company. Where the restricted shares represent at least 0.25 per cent. (in nominal value) of the issued shares of the same class as the restricted shares the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would

otherwise be payable on such shares shall be retained by the Company without liability to pay interest and that any election by the member for any scrip dividend alternative shall not be effective and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information required and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares are the subject of the transfer and restricted shares. The prescribed period referred to above means 14 days from the date of service under section 212 of the Act.

(e) Variation of Class Rights and Alteration of Capital

- (i) If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Statutes, be modified, abrogated or varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction or an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.
- (iii) Subject to the provisions of the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iv) Subject to the provisions of the Statutes or the Articles, all unissued shares of the Company are at the disposal of the Directors.
- (v) Subject to the provisions of the Statutes, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the Company or the shareholders on the terms and in the manner provided for by the Articles.

(f) Transfer of Shares

- (i) The instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.
- (ii) Notwithstanding any other provision of the Articles to the contrary, any shares in the Company may be held in uncertificated form and title to shares may be transferred by means of a relevant system (in each case as defined in The Uncertificated Securities Regulations 1995) such as CREST.

(g) Pre-emption rights

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares. In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a pro-rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

4. Directors' Interests

4.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company which:

- (a) have been notified by each Director pursuant to section 324 or section 328 of the Act;
 - (b) are required pursuant to section 325 of the Act to be entered into the register referred to therein;
- or

- (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under paragraph 4.1(a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, are, and will be immediately following Admission, as follows:

<i>Director</i>	<i>Number of Ordinary Shares at the date of this document</i>	<i>Percentage of issued Ordinary Share capital at the date of this document</i>	<i>Number of Ordinary Shares after the Placing and Open Offer</i>	<i>Percentage of issued Ordinary Share capital after the Placing and Open Offer</i>
Michael Balfour	6,000,000	6.2	6,000,000	5.2
Christopher Pearce	7,000,000	7.3	7,000,000	6.1
Colin Child	—	—	25,000	—
Nigel Cartwright	22,406	—	22,406	—
Sean Phillips	20,000	—	20,000	—
Walter Goldsmith	80,000	—	88,000	0.1
Malcolm Guscott	1,181,500	1.2	1,181,500	1.0
E John Denning	2,519	—	2,770	—

- 4.2 The following options over Ordinary Shares have been granted (for nominal consideration) to the Directors under the Share Option Schemes, such options being exercisable at the prices and between the dates shown below:

Fitness First Plc 1996 Executive Share Option Scheme

<i>Director</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise period</i>	<i>Exercise price</i>
Sean Phillips	25.09.98	80,000	25.09.01 – 24.09.04	117p
	08.11.99	80,000	08.11.02 – 07.11.05	343.5p
	02.10.00	75,000	02.10.03 – 01.10.06	566.5p
	19.11.01	100,000	19.11.04 – 18.11.07	423.5p
Nigel Cartwright	15.09.97	80,000	15.09.00 – 14.09.03	78p
	25.09.98	80,000	25.09.01 – 24.09.04	117p
	08.11.99	80,000	08.11.02 – 07.11.05	343.5p
	02.10.00	75,000	02.10.03 – 01.10.06	566.5p
	19.11.01	100,000	19.11.04 – 18.11.07	423.5p
Colin Child	24.01.01	400,000	25.01.04 – 24.01.07	505p
	28.06.01	200,000	28.12.04 – 27.12.07	600p

The aggregate amount of gains made during the year ended 31 December 2001 by Directors on the exercise of share options was £572,000.

Fitness First Plc 2000 Executive Approved Share Option Scheme

<i>Director</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise period</i>	<i>Exercise price</i>
Sean Phillips	02.10.00	5,000	02.10.03 – 01.10.06	572.5p
Nigel Cartwright	02.10.01	5,000	02.10.03 – 01.10.06	572.5p

- 4.3 Save as set out in paragraphs 4.1 and 4.2 above, following the Placing and the Open Offer no Director will have any interest in the share capital of the Company or any of its subsidiaries.

- 4.4 Save as disclosed below or in paragraph 4.1 above, as at 30 January 2002 (the latest practicable date prior to the publication of this document) the Company was not aware of any person who, directly or indirectly, had an interest which represented three per cent. or more of the issued share capital of the Company:

<i>Shareholder</i>	<i>Existing number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>
Henderson Investors	15,721,436	16.3
Fidelity International	7,465,686	7.7
Christopher Pearce	7,000,000	7.3
Michael Balfour	6,000,000	6.2
CGNU	4,578,002	4.7
Zurich Financial Services Group	3,025,378	3.1

- 4.5 The Directors are not aware of any persons who, at the date of this document, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

5. Directors' Arrangements

- 5.1 The aggregate remuneration paid and benefits in kind granted to the Directors by any member of the Group during the year ended 31 October 2001 amounted to £1,227,000.

- 5.2 (a) Christopher Pearce provided consultancy services to the Company through an agreement dated 18 February 1997 between CF Partners Limited and the Company. That agreement provided for a consultancy fee of £60,000 for the year ended 31 October 2001 (exclusive of VAT) to be paid to CF Partners Limited. For the year ended 31 October 2001, a bonus payment of £18,000 was paid to Christopher Pearce directly. As from 1 April 2001, Christopher Pearce was remunerated under PAYE and no longer receives fees through CF Partners Limited. The contractual arrangement with Christopher Pearce is for the period from 1 February 1997 until terminated by either party on 12 months' prior written notice.
- (b) Michael Balfour, Nigel Cartwright, Sean Phillips, Colin Child and Malcolm Guscott, the other executive Directors of the Company, have service agreements with the Company, the material terms of which are as follows:
- (i) The agreements which can be terminated (by either party) on 12 months' prior written notice.
 - (ii) None of the agreements provides for compensation upon early termination.
 - (iii) Benefits comprise the provision of medical insurance, life assurance cover and the use of a motorcar for each of the executive Directors.
 - (iv) Each of the executive Directors has annual bonus arrangements under which they can earn up to 40 per cent. of their annual salary by way of bonus depending upon the achievement of respective personal objectives for each financial year set by the remuneration committee of the Board.

The current emoluments payable pursuant to the executive Directors' service contracts are as follows:

<i>Director</i>	<i>Annual Salary (£)</i>	<i>Pension Contributions (£)</i>
Michael Balfour	275,000	55,000
Colin Child	190,000	38,000
Nigel Cartwright	130,000	26,000
Sean Phillips	130,000	26,000
Malcolm Guscott	120,000	Nil

- (c) The non-executive Directors have non-executive directors' appointment letters with the Company. Walter Goldsmith was appointed as a non-executive Director on 3 February 1997 for three years and Edward Denning was appointed as a non-executive Director on 23 June 2000 for three years. At the expiry of each of these respective periods their reappointment will be reviewed annually on 1 July, or if earlier, upon the date they reach 65 years of age (subject to the Articles). Both non-executive Directors are paid £20,000 per annum.

- 5.3 No Director has any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 5.4 There are no outstanding loans granted by any member of the Group to any Director nor has any guarantee been provided by any member of the Group for their benefit.
- 5.5 There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

6. Information on Directors

- 6.1 During the five years immediately prior to the date of this document, the Directors have held the directorships set out below:

Director

Christopher Donovan James Pearce
(Chairman)

Michael William Balfour
(Chief Executive)

Sean Vincent Phillips
(Sales and Fitness Director)

Nigel Ronald Cartwright
(International Operations Director)

Walter Kenneth Goldsmith
(Senior Non-Executive Director)

Colin Child
(Finance Director)

Directorships

Fitness First Plc
CF Partners Limited
Proteome Sciences plc
The Falcon Hotel (Bromyard) Limited
The Thorndike Theatre (Leatherhead) Limited*
Pembridge Estates Limited
Pembridge Estates (Addlestone) Limited
Pembridge Estates (West Byfleet) Limited
Pembridge Estates (Weybridge) Limited
Electrophoretics Limited
Phenomix Limited

Fitness First Plc
FIA Limited

Fitness First Plc
The Make-Up Store Limited*

Fitness First Plc

Fitness First Plc
Bank Leumi (UK) Plc
Beagle Holdings Limited
British Food & Farming Limited
Chambers & Newman Limited*
CL Services Limited
Guiton Group Limited
Industry on Line Limited*
Jumbo International Plc
Lifestyle Products Limited*
Royal Stafford Tableware Limited
SCS Upholstery Plc
The Winning Streak Limited*
Flying Flowers Limited*
Ewart Parsons Limited*
Isys Plc*
Ansoll Estates Limited*
Premisys Technologies Plc
ASAP International Group Plc*

Fitness First Plc
Meetens Industrial Engines Limited
London and Continental Railways Limited*
Inter-Capital and Regional Rail Limited*
National Express Group plc*
Eurostar (UK) Limited*

Director

Malcolm S Guscott
(Property Director)

E John Denning
(Non-Executive Director)

Directorships

Fitness First Plc
Start Cyber Limited

Fitness First Plc
Abbotbond Limited
Britannia Soft Drinks Limited*
Britvic Holdings Limited*
Six Continents Retail Limited*
Voyager Pub Group Holdings Limited*
Quayside Caterers Limited*
West Midlands Taverns Limited*
West Midlands Taverns (Holdings) Limited*

all of 58 Fleets Lane, Poole, Dorset, BH15 3BT.

(Where the directorship is marked with an asterisk the Director concerned is no longer at the date of this document a director of the relevant company.)

- 6.2 None of the Directors has any unspent convictions in relation to indictable offences.
- 6.3 None of the Directors has been declared bankrupt or been the subject of an individual voluntary arrangement.
- 6.4 Mr Goldsmith is a director of CL Services Limited and its subsidiary, CLS Autoparts Limited, which were put into administrative receivership pursuant to a mortgage debenture in favour of NMB Heller (UK) Limited on 13 September 2000. As at 1 December 2000, it was the view of the administrative receiver that NMB Heller (UK) Limited was owed approximately £1.1 million of which at that date approximately £900,000 had been paid, and that it was unlikely that there would be sufficient funds available to pay preferential and unsecured creditors.
- 6.5 Save as disclosed in paragraph 6.4 above, none of the Directors has been a director with an executive function of a company at the time of or within the 12 month period prior to that company becoming the subject of a receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.
- 6.6 None of the Directors has been a partner of a partnership at the time of or within the 12 month period prior to that partnership becoming the subject of a receivership, and none of the Directors has owned an asset which has become the subject of a receivership.
- 6.7 None of the Directors has been publicly criticised by any statutory or regulatory authority (including designated professional bodies) and none of the Directors has ever been disqualified by a Court from acting as a director of a company or firm acting in the management or conduct of the affairs of any company.

7. UK Taxation

The comments below are intended only as a general guide to the current tax position under United Kingdom law and what is understood to be current Inland Revenue practice. They summarise the position of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Ordinary Shares as investments. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional adviser without delay.

7.1 Taxation of chargeable gains

(a) Ordinary Shares acquired pursuant to the Open Offer

(i) General

For the purposes of United Kingdom tax on chargeable gains, the issue of New Ordinary Shares to Qualifying Shareholders up to and including their pro rata entitlement under the Open Offer should be treated as a reorganisation of the share capital of the Company.

On the above basis, to the extent that a Qualifying Shareholder takes up New Ordinary Shares up to and including his entitlement, the New Ordinary Shares so acquired and the existing holding in respect of which they are issued will, for the purposes of tax on chargeable gains, be treated as the same asset and as having been acquired when the existing holding was acquired (other than for computing indexation allowance where relevant). The amount paid for the New Ordinary Shares will

be added to allowable expenditure constituting an addition to the base cost of the enlarged holding when computing the gain on any disposal of the increased holding.

(ii) **Indexation Allowance**

Qualifying Shareholders within the charge to United Kingdom corporation tax will, for the purposes of computing gains but not losses, be allowed to claim an indexation allowance in respect of the amounts they have paid for New Ordinary Shares.

Although New Ordinary Shares up to the Qualifying Shareholder's entitlement will be treated as acquired at the same time as the Qualifying Shareholder's existing holding of Ordinary Shares as described above, for the purposes of computing indexation allowance, amounts paid for the New Ordinary Shares will be regarded as incurred on the date when such amounts are paid or fall due for payment.

(iii) **Taper Relief**

For Qualifying Shareholders within the charge to United Kingdom capital gains tax, indexation allowance has been frozen as at April 1998 and so such Qualifying Shareholders will not be able to claim an indexation allowance in respect of the amounts they have paid for New Ordinary Shares.

Taper relief now applies and reduces the percentage of any gain that is chargeable to capital gains tax, depending on how long the relevant shares have been held before disposal. New Ordinary Shares acquired pursuant to the Open Offer will be treated for these purposes as having been acquired at the same time as the original holding of Ordinary Shares to which they relate.

(b) *Ordinary Shares acquired pursuant to the Placing*

The issue of new Ordinary Shares under the Placing will not constitute a reorganisation of share capital for the purposes of the taxation of chargeable gains. Accordingly, any such New Ordinary Shares will constitute a new holding separate from any existing shareholding in the Company.

7.2 Stamp duty and stamp duty reserve tax ("SDRT")

Except in relation to depository receipt arrangements or clearance services, where special rules apply, under current UK legislation relating to stamp duty and SDRT:

(a) *The Open Offer*

The acquisition of New Ordinary Shares under the Open Offer will be free of stamp duty and SDRT where the New Ordinary Shares are registered in the names of the Qualifying Shareholders taking up their rights under the Open Offer;

(b) *The Placing*

No liability to stamp duty or SDRT should arise on the allotment of New Ordinary Shares by the Company under the Placing where they are registered in the names of the original offerees;

(c) *Sales of shares in certificated form*

A subsequent transfer or sale of New Ordinary Shares held in certificated form will generally be subject to stamp duty on the instrument of transfer, normally at the rate of 0.5 per cent. of the amount or value of the consideration (with duty rounded up to the nearest £5). Stamp duty is normally payable by the buyer of such shares. A charge to SDRT (generally at the same rate) may also arise on any unconditional agreement to transfer such shares although any liability will be cancelled and any SDRT already paid will be repaid, provided that an instrument of transfer is executed and stamp duty is paid on that instrument within six years after the date on which the liability to SDRT arises. SDRT is normally payable by the purchaser except where the purchase is effected through a stockbroker or other financial intermediary, in which case such person will normally account for SDRT and should indicate that this has been done in any contract note issued to the purchaser;

(d) *Transfer of shares into CREST*

Where shares are transferred to a member of CREST who will hold those shares in uncertificated form as nominee for the transferor, no stamp duty or SDRT will generally be payable;

(e) *Rematerialisation*

Where shares are transferred by a member of CREST to the beneficial owner (on whose behalf it has held them as nominee) no stamp duty or SDRT will generally be payable;

(f) *Transfer of shares within CREST or rematerialisation to new owner*

Where a change in the beneficial ownership of shares held in uncertified form occurs and such change is for a consideration in money or money's worth (whether the transferee will hold those shares in certified or uncertified form) a liability to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner;

(g) *Special Rules*

Special rules apply to market makers, broker dealers and certain other persons.

7.4 *Taxation of dividends*

(a) *The Company*

The Company will not be required to withhold tax at source on any dividends it pays to its shareholders.

(b) *United Kingdom Resident Shareholders*

An individual Shareholder resident in the UK for tax purposes will be taxable on the total of any dividend received and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income. The related tax credit will be equal to one ninth of the cash dividend received (or 10 per cent. of the gross dividend) and may be set against the individual Shareholder's liability to income tax on the dividend.

An individual Shareholder who is not liable to tax at the higher rate will be subject to tax at the rate of 10 per cent. on the gross dividend. The tax credit will therefore satisfy in full such a Shareholder's liability to income tax on the dividend received.

An individual Shareholder who is liable to tax at the higher rate will be subject to tax at the rate of 32.5 per cent. on the gross dividend. The tax credit will therefore not fully satisfy such a Shareholder's liability to income tax and he will have to account for additional tax equal to 22.5 per cent. of the gross dividend (or 25 per cent. of the cash dividend received). This means that a higher rate tax payer receiving a dividend of £90 will be treated as having a gross income of £100 (the net dividend of £90 plus a tax credit of £10) and after allowing for the tax credit of £10 will have a further £22.50 liability. The same procedure applies for UK resident trustees save that the rate applicable to trusts is 25 per cent. (as opposed to 32.5 per cent.).

Generally, Shareholders will not be entitled to reclaim the tax credit attaching to any dividends paid by the Company save where their Ordinary Shares are held in a Personal Equity Plan or Individual Savings Account, when the tax credit can be reclaimed for dividends paid on or before 5 April 2004. Certain transitional relief applies to dividends received by charities.

Subject to certain exceptions for traders in securities, a Shareholder which is a company resident for tax purposes in the United Kingdom will not be chargeable to tax on dividends received from the Company.

UK pension funds are not entitled to reclaim any part of the tax credit associated with dividends paid by the Company.

(c) *Non-United Kingdom resident Shareholders*

A Shareholder who is not resident in the United Kingdom for tax purposes and who receives a dividend from the Company will generally not be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to that dividend and any ability to do so will depend on the terms of any applicable double tax treaty between the United Kingdom and the country in which the Shareholder is resident. A Shareholder who is not resident in the United Kingdom may be subject to foreign taxation on dividend income under local law and should consult his own tax adviser concerning his liabilities to tax on dividends received from the Company.

8. Placing and Open Offer Agreement

On 31 January 2002, Investec Bank (UK) Limited, acting through its division Investec Henderson Crosthwaite, Dresdner Kleinwort Wasserstein and the Company entered into the Placing and Open Offer Agreement relating to the Placing and the Open Offer pursuant to which:

- 8.1 Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein shall, as agents for the Company and subject to certain conditions, make the Open Offer and use their reasonable endeavours to procure subscribers for, or failing which Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein will subscribe for, the New Ordinary Shares, to the extent that they are not subscribed for under the Open Offer, in each case at the Issue Price;
- 8.2 the obligations of Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein under the Placing and Open Offer Agreement are subject, *inter alia*, to the first of the Resolutions being passed on or before 25 February 2002 and Admission occurring on or before 26 February 2002 (or such later date as may be agreed, but in any event no later than 5 March 2002);
- 8.3 for the services provided by Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein, the Company will pay an advisory fee. In addition, the following commissions are payable:
 - (a) a placing commission of 1.75 per cent. of the value of the New Ordinary Shares at the Issue Price; and
 - (b) a placing commission of 0.5 per cent. of the value at the Issue Price of the 7,709,111 New Ordinary Shares which have been placed with institutions subject to recall by Qualifying Shareholders under the terms of the Open Offer (excluding those shares in respect of which irrevocable undertakings not to take up entitlements have been given),
together, in each case, with any applicable VAT thereon; and
- 8.4 the Company has given certain warranties in relation to this document and the business of the Group, and has given certain indemnities, to Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein.

9. Material Contracts

Save as provided in this paragraph 9, no member of the Group has entered into any material contract, not being a contract entered into in the ordinary course of business, within the two years immediately preceding the date of this document and save as aforesaid, no member of the Group has entered into any contract (not being a contract entered into in the ordinary course of business) which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

- (a) the Placing and Open Offer Agreement referred to in paragraph 8 above;
- (b) a placing agreement dated 25 February 2000 between the Company, Investec Bank (UK) Limited ("Investec") and Kleinwort Benson Limited ("Kleinwort Benson") pursuant to which Investec and Kleinwort Benson placed 2,913,680 ordinary shares of 25 pence each in the Company on behalf of the Company. 2,113,680 of such shares were placed at a price of 1,200p per share (the "Placing Price"), the proceeds being paid to the Company and the remaining 800,000 shares were placed at the Placing Price, the proceeds being paid to the vendors of shares in the Fitness Company Freizeitenlagen GmbH in accordance with the agreement referred to at (c) below. Under the agreement, aggregate commissions of £524,462.40 were paid by the Company;
- (c) a transfer agreement dated 25 February 2000 between the Company, Mr Marcel Peter Franke, Mrs Stephanie Franke, Mr James Edward McGoldrick and Mrs Rita McGoldrick (the "Vendors"), pursuant to which the Company acquired from the Vendors shares in the Fitness Company Freizeitenlagen GmbH representing 11.9 per cent. of the issued share capital of that company in consideration of the issue of 1,149,200 ordinary shares of 25p each in the Company (800,000 of which were placed pursuant to the placing agreement referred to at (b) above, the proceeds (of £9,600,000) being paid to the Vendors, and 349,200 of which were issued to and retained by the Vendors;
- (d) put and call agreements dated 25 February 2000 and a transfer agreement dated 14 December 2001 each between the Company, Mr Marcel Peter Franke and Mrs Julietta Franke pursuant to which the Company acquired from those individuals shares in the Fitness Company Freizeitenlagen GmbH in consideration of the issue to those individuals of 2,448,000 Ordinary Shares; and

- (e) put and call agreements dated 25 February 2000 and a transfer agreement dated 14 December 2001 each between the Company, Mr James Edward McGoldrick and Mrs Sigrid McGoldrick pursuant to which the Company acquired from those individuals shares in the Fitness Company Freizeitenlagen GmbH in consideration of the issue to those individuals of 2,053,600 Ordinary Shares.

10. Litigation

Neither the Company nor any of its subsidiaries is involved in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the Group's financial position nor is the Company aware that any such proceedings are pending or threatened.

11. No Significant Change

Save as disclosed in paragraph 3 of Part 1 of this document, there has been no significant change in the financial or trading position of the Group since 31 October 2001, the date to which the last annual accounts of the Company were published.

12. Working Capital

The Company is of the opinion that, taking into account available bank facilities and the net proceeds of the Placing and the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

13. General

13.1 Market Quotations of Ordinary Shares

The following table lists the closing middle market quotations for an existing Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the first dealing day in each of the six months before the date of this document and on 30 January 2002 (being the latest practicable date prior to the publication of this document):

<i>Date</i>	<i>Market Value (pence)</i>
1 August 2001	530.0
3 September 2001	540.0
10 October 2001	415.0
1 November 2001	413.5
3 December 2001	408.5
2 January 2002	472.5
30 January 2002	440.0

For the purposes of section 95(5) of the Act, the Directors believe that the Issue Price is reasonable in the light of the current and recent market prices of the Ordinary Shares, details of which are set out above.

13.2 Expenses

The total costs and expenses relating to the Placing and the Open Offer are payable by the Company and, including the commission described in paragraph 8.3 above, are estimated to amount to £2,200,000 (excluding VAT). Of this sum £1,510,680 (excluding VAT) will be payable to financial intermediaries assuming full take-up under the Open Offer.

13.3 Consents

Investec Henderson Crosthwaite and Dresdner Kleinwort Wasserstein have given and have not withdrawn their written consents to the inclusion herein of their letter and the references to their names in the form and context in which they are included.

13.4 Financial Information

The financial information set out in this document relating to the Company does not constitute statutory accounts of the Company within the meaning of section 240 of the Act. Deloitte & Touche Chartered Accountants and Registered Auditors of Mountbatten House, 1 Grosvenor Square, Southampton SO15 2BZ have reported upon the statutory accounts of the Company for each of the three financial years ended 31 October 1998 within the meaning of section 235 of the Act. Each such

report was unqualified within the meaning of section 262(1) of the Act and did not contain a statement under sections 237(2) or (3) of the Act. Statutory accounts of the Company for each of such financial years have been or will be delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.

13.5 Restricted offering

The New Ordinary Shares have been or are being offered on a restricted basis and are accordingly not available in whole or in part to the public in connection with the Placing and the Open Offer.

13.6 Registrars and Receiving Bankers

The registrars of the Company are Capita IRG Plc of Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ and the receiving bankers for the Placing and the Open Offer are Capita IRG Plc of Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH.

14. Documents Available for Inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday and public holidays excepted) at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA up to and including 21 February 2002:

- (a) the memorandum and articles of association of the Company;
- (b) the audited consolidated accounts of the Company for the two financial years ended 31 October 2001 and 31 October 2000;
- (c) the material contracts referred to in paragraph 9 above;
- (d) the irrevocable undertakings referred to in Part 1;
- (e) the Directors' service contracts referred to in paragraph 5.2 above;
- (f) the letters of consent referred to in paragraph 13.3 above;
- (g) the rules of the Share Option Schemes; and
- (h) this document.

31 January 2002

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA on 25 February 2002 at 10.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, resolutions 1 and 3 to be proposed as special resolutions and resolution 2 to be proposed as an ordinary resolution.

SPECIAL RESOLUTION

1. THAT:

- (a) the Directors be authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) of the Company up to an aggregate nominal amount of £2,343,750; and
- (b) the Directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred upon them by subparagraph (a) above as if section 89(1) of the Act did not apply to any such allotment, provided that this authority and power:
 - (i) shall be limited to the allotment of ordinary shares pursuant to the Placing and the Open Offer (as defined in the circular to shareholders of the Company dated 31 January 2002); and
 - (ii) shall expire on 31 December 2002 unless previously revoked or renewed save that the Company may before such expiry make offers, agreements or other arrangements which would or might require relevant securities or equity securities to be allotted after such expiry and the Directors may allot relevant securities or equity securities in pursuance of such offers, agreements or other arrangements as if the authority and power conferred hereby had not expired; and
 - (iii) shall be in addition to and without prejudice to any and all previous authorities and powers conferred on the Directors to allot relevant securities or equity securities.

ORDINARY RESOLUTION

2. THAT, subject to the passing of the immediately preceding resolution and the allotment and issue of ordinary shares created by it and in substitution for all previously granted but utilised authorities (other than those conferred by the immediately preceding resolution):
- (a) the authorised share capital of the Company be increased from £15,270,000 to £19,880,000 by the creation of an additional 36,880,000 ordinary shares of 12.5p each; and
 - (b) the Directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £4,795,000 provided that this authority shall expire five years from the date of the passing of this resolution save that the Company may before such expiry make offers, agreements or other arrangements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers, agreements or other arrangements as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

3. THAT, subject to the passing of the immediately preceding resolution and subject as provided therein, the Directors be empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of the Act) pursuant to the authority conferred by the immediately preceding resolution as if sub-section (1) of section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:
- (a) the allotment of equity securities in connection with issues by way of rights in favour of all holders of a class or classes of equity securities (provided that such issues shall be to ordinary shareholders or shall be accompanied by an issue on appropriate terms to ordinary shareholders) where the equity securities respectively attributable to the interests of all holders of securities of each such class are either proportionate (as nearly as may be) to the respective numbers of equity securities of that class held by them or are otherwise allotted in

accordance with the rights conferred on such equity securities (but subject in either case to such exclusion or other arrangements as the Directors may deem necessary to expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory or otherwise howsoever); and

- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £720,141.

and shall expire five years from the date of the passing of this resolution save that the Company may before such expiry make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers, agreements or other arrangements as if the power conferred hereby had not expired.

By order of the Board

Susan Cadd
Secretary

Registered Office:
58 Fleets Lane
Poole
Dorset BH15 3BT

31 January 2002

Notes:

- (a) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not also be a member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting should he so decide.
- (b) To be valid at the meeting the enclosed form of proxy and the power of attorney or other authority (if any) under which it is signed (or a notarially certified or office copy of such power or authority) must be completed and returned so as to reach the Company's Registrars not later than 10.30 a.m. on 23 February 2002 or 48 hours before the time of any adjournment of the meeting.
- (c) Pursuant to Regulation 34 of the Uncertified Securities Regulations 1995 the Company gives notice that only those shareholders entered on the register of members of the Company not later than 10.30 a.m. on 23 February 2002 or 48 hours before the time of adjournment of the meeting will be entitled to attend or vote at the aforesaid extraordinary general meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.