



Fitness First Plc is one of the leading operators of fitness clubs in the world. The Group has 140 clubs, and over 300,000 members, with operations in the UK, Continental Europe, the Far East and Australia.

The Group's objective is to provide high quality, value for money clubs in convenient locations. The clubs follow a successful formula of providing excellent facilities with motivated, well-trained and enthusiastic staff.

The Group has ambitious plans to deliver strong earnings growth by rolling out further the proven Fitness First concept on an international basis through organic growth and strategic acquisition where appropriate. The Group will continue to employ sound financial management and operate to the highest standards of Corporate Governance.



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## **CHAIRMAN'S STATEMENT**

*Year ended 31 October 2000*

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I am pleased to report another year of exceptional growth with pre-tax profits, before goodwill amortisation, increasing by 110%. In the four years since its flotation in 1996, Fitness First has achieved compound growth in earnings of over 100%, an extraordinary achievement and clear demonstration of the success of the Fitness First formula.

Fitness First is now firmly established as the largest fitness club operator in Europe and one of the leading operators in the world. In the past 12 months, in addition to new clubs opened within the UK, we have made significant progress internationally with clubs opening in Continental Europe, the Far East and Australia.

At 31 October 2000 the Group operated 115 clubs with a further 25 clubs opened or acquired by the date of this report – a total of 140 clubs. We now have over 300,000 members around the world, an increase of 100% over the previous year.

### **Financial Results**

Turnover in the year ended 31 October 2000 increased 140% to £65.3m (1999 – £27.2m) and pre-tax profits, before goodwill amortisation, rose 110% to £12.8m (1999 – £6.1m). Earnings per share, before goodwill amortisation, have risen to 25.3p (1999 – 15.2p) an increase of 66%.

Your Directors believe that shareholder returns can continue to be maximised by investing the profits generated during the year in further club openings. Accordingly, a dividend for the year ended 31 October 2000 is not being declared.

### **International Expansion**

During the year the Group has accelerated its international expansion through strategic investment and acquisitions in Belgium, Germany and the Far East and operations were established in Spain, The Netherlands, France and Italy. Since the year end 11 high quality clubs have been acquired in Australia. As a consequence of these investments, strategic platforms are in place from which the Group can generate further strong growth on an international basis.

### **Management**

One of the key reasons for the ongoing success of Fitness First has been the recruitment of qualified and experienced senior managers and employees. This policy, together with an operational management structure established for each region and country has ensured the quality of service necessary to fulfil the Group's strategic objectives.

In January 2001 the Board was extended together with some reallocation of responsibilities. Nigel Cartwright has been appointed International Operations Director where his knowledge and experience will prove invaluable. He has been succeeded as Finance Director by Colin Child who was previously Finance Director and Deputy Chief Executive at National Express Group. Colin's experience of the service sector and his operational expertise should provide a significant contribution to Fitness First's future expansion.

## **CHAIRMAN'S STATEMENT (continued)**

Year ended 31 October 2000

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Owing to other business commitments Stephen Bamford has decided to step down as a non-executive director at the Company's AGM in February. I should like to thank Stephen for the contribution he has made over the past four years and wish him every success with his other interests.

Fitness First relies heavily on all its management and employees and I would like to sincerely thank everyone for their hard work during the year. I would also like to take this opportunity to welcome the new members of staff who have joined us, especially those in Continental Europe, the Far East and Australia. The professionalism, commitment and enthusiasm of all our employees has made a considerable contribution to the tremendous success of the Group during this very busy period.

### **Proposed Sub-Division of Shares**

Since flotation in October 1996 the market price of the Company's shares has increased 12 fold from 80p. The Board considers that now is an appropriate time to effect a share split and believes that presentationally shares of a lower value are more attractive to private investors and should further enhance market liquidity.

Accordingly a resolution will be proposed at the Annual General Meeting that each Ordinary Share of 25p each be sub-divided into two new Ordinary Shares of 12.5p each.

### **Current Trading and Prospects**

The buoyant conditions within the global health and fitness industry have continued into 2001 and the prospects for the rest of the year look most encouraging. With a strong 'pipeline' of prospective new clubs around the world, Fitness First is uniquely placed to further extend its successful formula and to sustain a strong rate of future growth in profits and earnings. The prospects for the Company continue to look very favourable and your Directors look to the future with confidence.

A handwritten signature in black ink, appearing to read "CJ Pearce", with a long horizontal line extending from the end of the signature.

**Christopher Pearce**

Chairman

25 January 2001

## CHIEF EXECUTIVE'S REVIEW

During 2000 Fitness First successfully established strategic platforms overseas from which the Group can generate strong growth on an international basis.

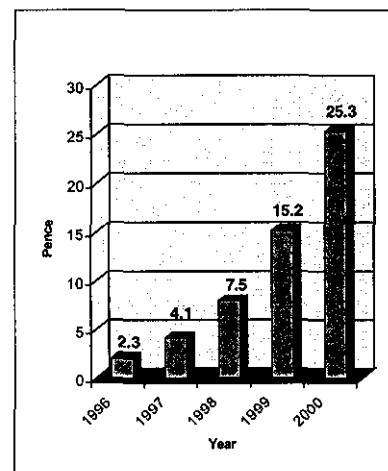
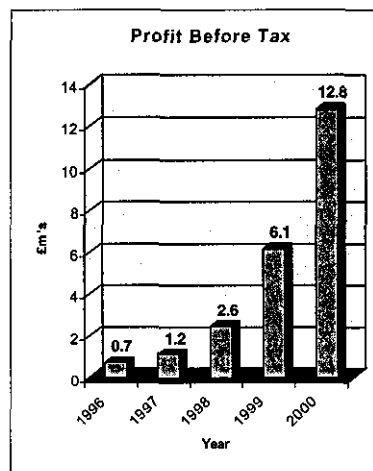
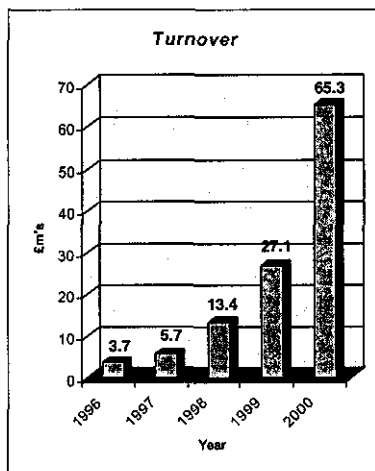
In addition to the major expansion of Fitness First clubs in the UK we achieved significant growth in Continental Europe, doubling the size of the German and Belgium operations. New offices were also established in Spain, The Netherlands, France and Italy with clubs scheduled for opening during 2001 in each of these countries.

Strategic acquisitions of two fitness club businesses were completed in the Far East and Australia giving the Group a truly international dimension. The Group is now firmly established in these markets and has put in place the foundations for future development and growth.

In addition to the rapid expansion of new clubs, Fitness First has invested in one of the most important aspects of the business – the training of our employees. In April 2000 we opened the Fitness First Group Training Academy in Chesterfield. This residential training facility allows us to provide a full range of specialised training courses for all levels of staff. Our staff trainers are accredited National Vocational Qualification instructors which enables all our fitness personnel to achieve a recognised qualification.

### Financial Results

In the year ended 31 October 2000 turnover increased by 140% to £65.3m (1999 – £27.2m) while profit before tax and goodwill amortisation was £12.8m (1999 – £6.1m) an increase of 110%. Earnings per share, before goodwill amortisation, for the year were 25.3p (1999 – 15.2p), an increase of 66%. This impressive performance has been achieved alongside the substantial ongoing investment in new clubs, which saw an additional 53 Fitness First clubs open or acquired during the year.



## **CHIEF EXECUTIVE'S REVIEW (continued)**

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The operating cash flow of the Group remains strong with £22.2m generated during the period (1999 – £12.1m). During the year capital expenditure, primarily on new clubs, amounted to £51.7m (1999 – £27.5m) and this is expected to continue to grow as the successful new club opening programme gathers momentum.

The Group's capital expenditure has been financed through utilising our bank debt facilities and through a £25m equity issue in February 2000. We are delighted with the continued support of our shareholders which has enabled us to fund the expansion of the Group on a sound financial basis. In January 2001 we arranged a new unsecured £100m facility with our bankers, which together with existing resources and the Group's strong operating cash flow will enable us to finance our future expansion programme.

The Group has adopted FRS15 – "Tangible Fixed Assets" requiring the depreciation of freehold and leasehold properties. As required by FRS15 the 1999 results have been restated.

### **Acquisitions**

In November 1999 the Group entered the Belgium market with the acquisition of a 40% interest in Passage Invest which operated three fitness clubs. This business has grown significantly during the year and is now the largest fitness club operator in Belgium with eight clubs.

During the period under review we acquired the remaining 50% of The Fitness Company in Germany, following the original investment in 1998. Through the introduction of the Fitness First concept into Germany, The Fitness Company has grown from six clubs to over 30 in just over two years. As part of Fitness First, The Fitness Company will now be able to continue its club opening programme in Germany and to extend its leading position in this large and fragmented market.

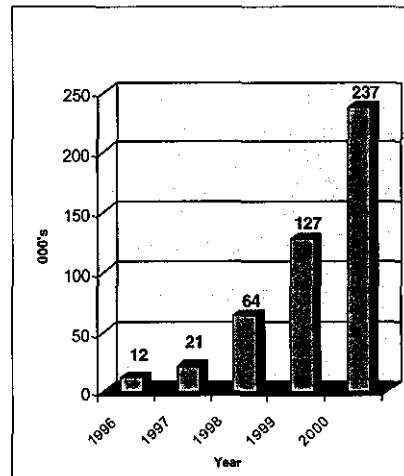
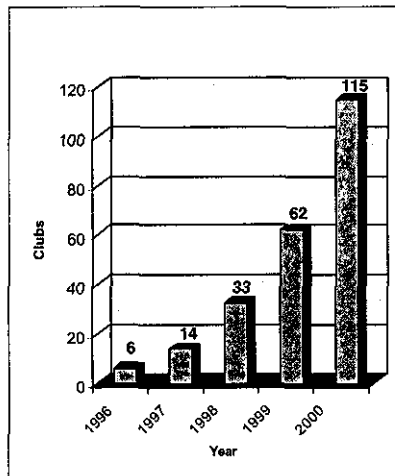
In June 2000 the Group acquired 90% of SPORTathlon, an operator of fitness clubs in the Far East, for £3.2m. This profitable company operates seven fitness clubs in Hong Kong, Singapore, Thailand, and the Philippines and has two management contracts in China and Indonesia. Fitness First has acquired an excellent, well established and motivated management team who hold the remaining 10% of the equity in this company. SPORTathlon provides the Group with an established platform from which to develop the Fitness First concept in this dynamic region.

Since the year end, we have become the largest operator of fitness clubs in Australia through the acquisition, for £4.0m, of 11 clubs previously operated by Healthland International. Fitness First Australia Pty has appointed a new Managing Director, with over 20 years experience of the industry, and who has invested in 15% of the equity of this company alongside the Group. This acquisition represented an ideal opportunity for the Group to gain a major foothold in this market through a chain of quality clubs with an established membership base of over 45,000.

## CHIEF EXECUTIVE'S REVIEW (continued)

### Operational Review

During the period Fitness First opened or acquired 53 clubs, bringing the total number of clubs to 115 (1999 – 62 clubs). In the three months since the year-end a further 25 clubs have been added. Based on our latest projections we anticipate having 190 clubs open by the end of the current year.



One of the key achievements of the year has been the continued successful roll out of the Fitness First concept in the international market. We now have over 60 clubs operating outside of the UK representing more than 40% of the Group's total clubs. In just four years since flotation in October 1996 we have become a truly international Group with an unrivalled platform from which to expand and further capitalise on potential growth opportunities.

	October 2000 Actual	January 2001 Actual	October 2001 Planned
UK	72	79	97
Continental Europe:			
Germany	30	32	43
Belgium	6	8	10
Spain		2	6
Netherlands		1	2
Italy			3
France			3
Far East	7	7	11
Australia		11	15
<b>TOTAL</b>	<b>115</b>	<b>140</b>	<b>190</b>

## **CHIEF EXECUTIVE'S REVIEW (continued)**

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At the date of this report we have over 300,000 members, an increase of over 100% on the previous year. One of the emerging benefits of Fitness First as an international concept is that it can offer its members access to all of its clubs around the world. As our geographical coverage continues both within the UK and internationally we believe this benefit to our members will become increasingly attractive.

### **UK Review**

The UK fitness market has been and will continue to be successful. This reflects an increasing awareness of the benefits of regular exercise and leading a healthier lifestyle.

Our roll out programme continued with 25 new clubs opened during the year to 31 October. At the date of this report a further seven clubs have opened, taking the UK clubs total to 79 with six under construction. Membership in the UK has risen from 112,000 last year to 180,000 at the date of this report. We believe that the future market for Fitness First clubs in the UK should exceed 250.

The UK clubs follow a consistent format of providing high quality facilities that are most used by our members; including gymnasium, aerobics studios, luxury changing facilities adjoining large spa area (sauna, steam room and whirlpool bath), lounge and beauty salon. As a general rule we do not incorporate swimming pools, tennis courts or large food and beverage outlets within our clubs as they significantly add to membership costs but are often little utilised. All clubs have a free video library, "cardio-theatre" – 16 channel entertainment system and many of the clubs provide complimentary soft drinks, coffee and tea. In identifying suitable sites for development we focus on those sites with good access and communications and generally large car parking facilities.

We believe that as a result of the scale of our roll out programme and the experience gained, we will continue to build clubs to a high specification with a wide variety of equipment which offers exceptional value to our members.

### **Continental European Review**

The Fitness Company in Germany had a strong year of growth, doubling the number of clubs to 30. Since the year end a further two clubs have opened and six are under construction. Membership in Germany has risen from 33,000 last year to 65,000 at the date of this report.

Passage, our Belgium associate, had three clubs at the time of acquisition in November 1999. During the year to 31 October a further three clubs adopting the Fitness First formula were opened, and since the year end a further two clubs have been added and three are under construction. Membership in Belgium has risen from 5,000 last year to over 10,000 at the date of this report.

## **CHIEF EXECUTIVE'S REVIEW (continued)**

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During the year we established offices in Spain, The Netherlands, France and Italy. In these markets we have created wholly owned subsidiaries to build new clubs utilising the Fitness First concept. The markets in each of these countries are still in the early stages of development and we expect that initially clubs will take longer to fill when compared with our current experience in the UK, reflecting a similar trend to our UK performance four or five years ago. We expect the new club membership pattern to move closer towards the UK model as the market awareness of the benefits of fitness club membership grows and the Fitness First brand becomes more recognised. At the date of this report two clubs have been opened in Spain and one in The Netherlands. Four further clubs are under construction in Spain, two in France and one in Italy.

The quality of our Continental European clubs follows the standards set in the UK. The profile remains very similar with local styles and differences incorporated where appropriate. In 2001, Fitness First will continue to expand in Continental Europe and has established a strong pipeline of sites throughout these countries.

### **Far East and Australia**

SPORTathlon, established in 1985, operates fitness clubs and spas in the Far East, with a membership base of over 5,000. The company has seven fitness clubs; three in Hong Kong, two in Singapore, one in Thailand and one in the Philippines and has two management contracts for fitness clubs – one located in China and the other in Indonesia. Since acquisition, the experienced management team has produced profits ahead of forecast and is in the process of acquiring a number of Fitness First sites for development in 2001. SPORTathlon will provide a platform for growth in the Far East from which we can expand the Fitness First concept in this exciting market.

In November 2000 Fitness First acquired 85% of the largest chain of health clubs in Australia, formerly known as Healthland International, for approximately £4m. This strategic acquisition provided Fitness First with 11 quality clubs, five development sites and an established membership of 45,000. The clubs had previously been loss making, primarily due to the sale of heavily discounted long term membership contracts and high operating costs. We have introduced a new experienced management team, including a new Managing Director who has purchased a 15% interest in Fitness First Australia Pty. The new management team has already implemented the Fitness First culture including the introduction of monthly membership arrangements and by substantially reducing operating costs. We expect Fitness First Australia to make a modest contribution to profits this year and increase its number of clubs from 11 to 15, retaining its position as market leader. The future prospects for this operation look very encouraging.

### **Fitness First Concept**

The Group's philosophy of providing high quality, value for money, well managed clubs in convenient locations is now well proven. By focusing on the facilities most utilised by members we are able to keep membership fees at attractive and competitive levels. All



## **CHIEF EXECUTIVE'S REVIEW (continued)**

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clubs are operated by motivated, well trained and enthusiastic staff and with most clubs open 16 hours a day, seven days a week, our members are assured access to the clubs at a time convenient to them.

### **Outlook**

The global fitness industry is one of the fastest growth areas of the leisure sector as people around the world seek to improve their lifestyles and move towards leading a healthier and fitter life. Fitness First, as one of the leading operators, is well placed both within the UK and internationally to capitalise on this growth. We believe our concept of providing high quality value for money facilities is capable of further substantial roll out within the UK and in targeted overseas markets. By maintaining high standards and focusing on our core product and a growing brand awareness we will continue to deliver substantial earnings growth and shareholder value.

*The future for our staff and shareholders as part of a successful and expanding Group is exciting and rewarding and I too should like to sincerely thank them all for their continued support.*

A handwritten signature in black ink, appearing to read "Mike Balfour", written over the printed name.

**Mike Balfour**  
Chief Executive  
25 January 2001

## DIRECTORS

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Biographical details of the Board of Directors are set out below:

**Christopher D J Pearce, MSI Dip, Chairman, Aged 47**

Mr Pearce is a co-founder of the Company and as a former director of Smith New Court Securities Plc, Mr Pearce has extensive experience in research, marketing and corporate finance, with a particular specialisation in the leisure industry. He has been jointly responsible for the formulation and implementation of Group corporate strategy and development. Mr Pearce is an Executive Director and is involved in all key decisions. He is Chief Executive of AIM quoted Proteome Sciences Plc.

**Michael W Balfour, FCA, Chief Executive, Aged 51**

Mr Balfour is a Chartered Accountant and co-founder of the Company. He gained his experience in the fitness industry as a director of the Houstonian Health & Fitness Club in Houston, Texas, USA from 1986 to 1992 and through setting up LivingWell Health & Leisure Limited, of which he was Managing Director from 1988 to 1992. He also has considerable management expertise in other areas of the leisure industry both in the UK and North America. He is on the board of the Fitness Industry Association, which represents the interests of the UK Fitness Club operators.

**Nigel R Cartwright, FCIS, International Operations Director, Aged 47**

Mr Cartwright joined the Group as Finance Director in January 1997 and was appointed International Operations Director in January 2001. Since joining the Group he has gained extensive operational experience and is involved in the expansion and development of the Group. He gained his financial and management experience with Moores Rowland, TDG Plc and Gestetner Plc and as Deputy Managing Director of The Terence Piper Company.

**Colin C Child, FCA, Finance Director, Aged 43**

Mr Child, a Chartered Accountant, joined the Group as Finance Director in January 2001. He was previously Finance Director and Deputy Chief Executive of National Express Group PLC during a period of rapid growth. Prior to joining National Express he specialised in corporate finance with a number of investment banks.

**Malcolm S Guscott, Property Director, Aged 49**

Mr Guscott has been associated with the Company since 1994, when he became a partner in the development of the Birmingham club. Prior to this he was in property management. He has been responsible for site finding and property negotiation in the UK since 1996. His role has been expanded to include all property related matters in much of Europe. He was appointed to the Board in January 2000.

**Sean V Phillips, MSc, Operations Director, Aged 37**

Mr Phillips has an MSc in Exercise Science and a BSc Hons in Health and Physical Education. He has been involved in health club management since 1986 including as General Manager of a number of major LivingWell Health Clubs in the UK. He joined the Group in 1993 as General Manager and was appointed Operations Director in 1996.

**Stephen J Bamford, non-executive \*, Aged 50**

Mr Bamford is Managing Director of IDC Advisory Limited. He has 27 years' experience in investment management at Kleinwort Benson, County Bank, Aetna Life and Casualty and most recently as President and founding Chief Executive Officer of GFM International Investors Limited, the UK subsidiary of Metropolitan Life of the United States.

**Edward J Denning, FRICS, non-executive \*, Aged 54**

Mr Denning is the Managing Director of Bass Leisure Retail. He joined Bass Leisure in 1989 as the Property Director, becoming Managing Director in 1997. Prior to this he gained extensive experience in the property field at Forte Plc and McDonalds Restaurants Ltd.

**Walter K Goldsmith, FCA, CIMgt, FRSA, Senior non-executive \*, Aged 63**

Mr Goldsmith is a director of a number of public and private companies across a range of industries including banking, technology, newspapers, property, retailing and consumer goods. He was formerly Chief Executive of Black & Decker, Group Planning and Marketing Director of Forte Plc, and Director General of the Institute of Directors as well as a board member of the British Tourist Authority.

\* Members of the Audit and Remuneration & Nominations Committees

## **CORPORATE INFORMATION**

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### **COMPANY SECRETARY**

Mrs S A Cadd (FCIS)

### **REGISTERED NUMBER**

3075946

### **REGISTERED OFFICE**

58 Fleets Lane  
Poole  
Dorset  
BH15 3BT  
Tel 01202 845000  
[www.fitnessfirst.co.uk](http://www.fitnessfirst.co.uk)

### **PRINCIPAL BANKERS**

Royal Bank of Scotland Plc  
135 Bishopsgate  
London  
EC2M 3UR

HSBC Bank Plc  
27-32 Poultry  
London  
EC2P 2BX

Dresdner Bank AG  
Riverbank House  
2 Swan Lane  
London  
EC4R 3UX

### **AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Mountbatten House  
1 Grosvenor Square  
Southampton  
SO15 2BZ

### **SOLICITORS**

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

### **FINANCIAL ADVISERS AND STOCKBROKERS**

Henderson Crosthwaite Institutional Brokers Limited  
2 Gresham Street  
London  
EC2V 7QP

Dresdner Kleinwort Wasserstein  
20 Fenchurch Street  
London  
EC3P 3DB

### **REGISTRAR**

IRG Plc  
Balfour House  
390-398 High Road  
Ilford  
Essex  
IG1 1NQ  
Tel 020 8639 2000

## DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 October 2000.

### PRINCIPAL ACTIVITIES

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

### REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

A review of the performance of the Group during the year and expected future developments is contained in the Chairman's Statement and the Chief Executive's Review on pages 2 to 9.

### RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 22. The Directors do not propose the payment of a dividend (1999 – £nil).

### DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 10. Mr M S Guscott was appointed as a Director of the Company on 11 January 2000. Mr E J Denning was appointed as a Director of the Company on 29 June 2000, and offers himself for election at the forthcoming Annual General Meeting. In accordance with the Company's Articles of Association, Mr N R Cartwright and Mr W K Goldsmith retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr C C Child was appointed as a Director of the Company on 24 January 2001 and offers himself for election at the forthcoming Annual General Meeting.

Mr S J Bamford has tendered his resignation as a Director of the Company to be effective from the 28 February 2001.

The Directors' interests in the ordinary shares of the Company at 1 November 1999, or date of appointment, and at 31 October 2000 were as follows:

	Ordinary shares	
	2000 25p shares	1999 25p shares
C D J Pearce (Chairman)	3,500,000	3,500,000
M W Balfour (Chief Executive)	3,300,000	3,300,000
N R Cartwright (Finance Director)	11,203	1,203
M S Guscott (Property Director)	590,750	–
S V Phillips (Operations Director)	10,000	10,000
S J Bamford (non-executive)	1,966	1,966
W K Goldsmith (non-executive)	40,000	40,000
E J Denning (non executive)	–	–

There have been no changes in Directors' interests between the year end (or date of appointment if later) and the date of these accounts.

Directors' interests in share options are disclosed in note 4.

## DIRECTORS' REPORT (continued)

### SUBSTANTIAL INTERESTS

At 22 January 2001 the Company had been made aware of the following persons entitled to exercise control of 3% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company:

Shareholder	Ordinary shares held	Percentage of Ordinary Share Capital
Henderson Investors	9,570,873	20.88
C D J Pearce	3,500,000	7.64
M W Balfour	3,300,000	7.20
Norwich Union	2,524,800	5.50
Fidelity International	1,525,532	3.33

### EMPLOYMENT POLICIES

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

### EMPLOYEE INVOLVEMENT

Information on the Group is circulated via staff newsletters and visits by management. Regular meetings are held with employees to discuss the operations, sales and the financial progress of the business.

Senior employees are encouraged to become involved in the success of the Company through share option schemes (see note 20). A bonus scheme is in place for most employees; this has focused staff on the performance of the business.

### PAYMENT POLICY

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. Creditor days at 31 October 2000 were 41 (1999 – 41).

### POST BALANCE SHEET EVENT

On 1 November 2000 the company acquired the trade and assets of an Australian fitness operation for a consideration of approximately £4 million.

### AUDITORS

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

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

S A CADD  
Company Secretary  
25 January 2001



## **REPORT OF THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION**

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### **Remuneration and Nominations Committee**

The Committee, consisting solely of three non-executive Directors: Mr W K Goldsmith, Mr S J Bamford and Mr E J Denning, under the chairmanship of Mr S J Bamford is responsible for determining the remuneration and conditions of employment of the Chairman and executive Directors. The Committee consults the Chairman and Chief Executive about its proposals and has access to professional advice from outside the Company. No Director plays a part in any discussion about his own remuneration.

### **Remuneration policy**

Executive remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to maintain the Company's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee. The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive Directors and senior management:

- basic annual salary (including Directors' fees) and benefits;
- annual bonus payments of up to 40% of basic salary;
- share option incentives; and
- pension arrangements.

### **Basic salary**

An executive Director's basic salary is determined by the Remuneration Committee on an annual basis and when an individual changes position or responsibility. Basic salaries were reviewed in November 2000 with increases taking effect from 1 November 2000. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

### **Annual bonus payments**

The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is total shareholder return. Account is also taken of the relative success of the different parts of the business for which the executive Directors are responsible and the extent to which the strategic objectives set by the Board are being met.

### **Share option incentives**

The Directors' share options were granted under the terms of the 1996 Executive Share Option Scheme and enables them to benefit in the increased market capitalisation of the Company. Share options are awarded by the Remuneration Committee in consultation with the Chairman and the Chief Executive.

At 31 October 2000, 119 key employees held 1,501,250 share options exercisable during various periods as detailed in note 20.

### **Directors' pension arrangements**

The Company contributes to certain executive Directors' personal pension scheme arrangements. None of the Directors is a member of a defined benefit scheme.

### **Directors' contracts**

All executive Directors have one year service contracts. The Company may have a contractual obligation to pay compensation for the unexpired portion of a Director's contract, if it is terminated early. No other payments are made for compensation for loss of office.

## **REPORT OF THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION (continued)**

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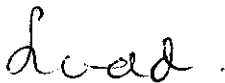
### **Non-executive Directors**

All non-executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set out in the Articles of Association and based upon independent surveys of fees paid to non-executive Directors of similar companies.

### **Details of Directors' remuneration and share options**

This report should be read in conjunction with note 4 to the accounts, which also constitutes part of this report, giving full details of the remuneration package of each Director and details of each Director's share options.

By order of the Board

A handwritten signature in cursive script, appearing to read "S A CADD".

**S A CADD**

Company Secretary

25 January 2001

## CORPORATE GOVERNANCE

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### **Statement of appliance of the principles in the combined code**

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees.

### **Wider aspect of internal control**

In September 1999, the Turnbull Committee published its "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"). The Board is currently reviewing the Group's procedures to ensure compliance with the Turnbull Guidance by 31 October 2001. This will include a review of the risks faced by the Group and the controls in place to alert the Directors to these risks in order to minimise any negative impacts.

The Group has therefore adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the UK Listing Authority to listed companies dated 27 September 1999.

The Board has considered the need for an internal audit function, but has decided that because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Board will review this decision on a regular basis.

### **Directors**

The Company is controlled through the Board of Directors which comprises six executive and three independent non-executive Directors. The Board has a formal schedule of matters reserved to it and meets monthly. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes.

The Board also considers environmental and employee issues and key appointments. It also ensures that all Directors receive appropriate training on appointment and then subsequently as appropriate. All Directors are able to take independent professional advice in furtherance of their duties if necessary. All Directors, in accordance with the Code will submit themselves for re-election at least once every three years.

The Board has established a number of standing Committees. Each Committee operates within defined terms of reference. The principal Committees are the Operations Committee, which operates as a general management Committee, the Audit Committee and the Remuneration and Nominations Committee.



## CORPORATE GOVERNANCE (continued)

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Those attending and the frequency of Board and Committee meetings during the year were as follows:

### **Board Meetings**

Monthly;  
all Directors.

### **Operations Committee**

Weekly;  
M W Balfour  
S V Phillips  
N R Cartwright  
M S Guscott

### **Audit Committee**

At least twice yearly;  
W K Goldsmith  
S J Bamford  
E J Denning

### **Remuneration and Nominations Committee**

Twice yearly;  
S J Bamford  
W K Goldsmith  
E J Denning

S J Bamford, W K Goldsmith and E J Denning are non-executive Directors and are independent of management.

### **Directors' remuneration**

The Remuneration and Nominations Committee is responsible for determining the remuneration of the Chairman and executive Directors and appointments to the Board. Details of the Committee's terms of reference are set out in the Report of the Board to the Shareholders on Directors' Remuneration on pages 14 and 15 and includes details of Directors' incentive payments and the related performance criteria.

### **Relations with shareholders**

The Company encourages two way communication with its institutional and private investors and responds quickly to all queries received verbally or in writing. The Company undertakes a formal programme of institutional presentations on the announcement of its full year and interim results. All shareholders have at least twenty working days notice of the Annual General Meeting at which all Directors are introduced and are available for questions.

### **Accountability and audit**

#### *Financial reporting*

The Board uses this report, including the Chairman's statement and Chief Executive's Review on pages 2 to 9 and the Directors' Report on pages 12 and 13, to present a balanced and understandable assessment of the Company's position and prospects. The Directors' responsibilities for the financial statements are described on page 20.

#### *Internal financial control*

The Directors are responsible for the Group's system of internal financial control. Such a system can provide only reasonable but not absolute assurance against material misstatement or loss. The key control procedures are described under the following five headings;

#### ● **Financial information**

The Group has a comprehensive system for reporting financial results to the Board; each operating unit prepares monthly results with a comparison against budget. The Board reviews these for the Group as a whole and determines appropriate action. Towards the end of each financial year the operating units prepare detailed budgets for the following year. Budgets and plans are reviewed by the Board before being adopted formally.

## CORPORATE GOVERNANCE (continued)

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- **Quality and integrity of personnel**

One of the Group's core values is integrity; this is regarded as vital to the maintenance of the Group's system of internal control.

- **Operating unit controls**

The executive management has defined the financial controls and procedures with which each operating unit is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting. The operating units make regular assessments of their exposure to major business risks and the extent to which these risks are controlled. These management assessments are checked by club visits carried out by members of the Group's finance team ('internal audits'). The reports arising from such visits are given to both the executive and unit management and the Audit Committee.

- **Computer systems**

Much of the Group's financial and management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. Also, the Group has put in place arrangements for computer processing to continue and data to be retained in the event of the complete failure of the Group's own data processing facility. These arrangements are tested regularly and reviewed by the Group's finance team.

- **Controls over central functions**

A number of the Group's key functions, including treasury, taxation and insurance, are dealt with centrally, and are reported to the Board on a regular basis; the treasury function also reports daily to the Finance Director or, in his absence, to the Chief Executive.

The Board has conducted for 2000, an annual review of the effectiveness of the system of internal financial control and has taken account of material developments which have taken place since 31 October 1999. The review was performed on the basis of the criteria set out in the Guidance for Directors 'Internal Control and Financial Reporting' issued in December 1994. It has considered the major business and financial risks, the control environment, information on, and arising from, control procedures and the results of the internal audits.

### *Audit Committee and auditors*

The Audit Committee, comprising the non-executive Directors has specific terms of reference which deal with its authority and duties. It meets at least twice a year with the external auditors attending by invitation. The Committee oversees the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report and internal audits are reported to the non-executive Directors. Part of each meeting of the Audit Committee is held between the non-executive Directors and external auditors in private.

### *Going concern basis*

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

## **CORPORATE GOVERNANCE (continued)**

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### **COMPLIANCE STATEMENT**

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Save for the exceptions outlined below, the Company has complied throughout the accounting period ended 31 October 2000 with the provisions set out in Section 1 of the Code. The exceptions to the Code were as follows:

- Until the appointment of Mr E J Denning on 29 June 2000 the Audit Committee comprised only two non-executive Directors rather than three as recommended by Code provision D.3.1; and
- Until the appointment of Mr E J Denning on 29 June 2000 non-executive Directors did not comprise one third or more of the Board as recommended by Code provision A.3.1.

As permitted by the UK Listing Authority, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting that was issued in December 1994.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

A handwritten signature in cursive script, appearing to read "S A CADD".

**S A CADD**  
Company Secretary  
25 January 2001

## AUDITORS' REPORT TO THE MEMBERS OF FITNESS FIRST PLC

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We have audited the financial statements on pages 22 to 48, which have been prepared under the accounting policies, set out on pages 27 and 28.

### **Respective responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including as described on page 20, the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

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

We review whether the Corporate Governance statement on page 19 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all the risks and controls, or to form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

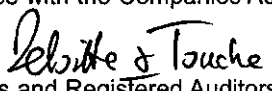
### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche**   
Chartered Accountants and Registered Auditors  
Mountbatten House  
1 Grosvenor Square  
Southampton  
SO15 2BZ

25 January 2001

# **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

Year ended 31 October 2000

	Note	2000 Before goodwill £000	2000 Goodwill amortisation £000	2000 Total £000	1999 Restated £000
<i>Turnover: Group and share of joint ventures</i>		52,234	–	52,234	31,316
<i>Less: Share of joint ventures' turnover</i>		(2,509)	–	(2,509)	(4,155)
<b>Group turnover – continuing operations</b>		<b>49,725</b>	<b>–</b>	<b>49,725</b>	<b>27,161</b>
<b>– acquisitions</b>		<b>15,542</b>	<b>–</b>	<b>15,542</b>	<b>–</b>
	2,3	65,267	–	65,267	27,161
Cost of sales		(2,680)	–	(2,680)	(993)
<b>Gross profit</b>		<b>62,587</b>	<b>–</b>	<b>62,587</b>	<b>26,168</b>
Administrative expenses		(49,551)	(1,462)	(51,013)	(20,045)
<b>Operating profit – continuing operations</b>		<b>11,145</b>	<b>–</b>	<b>11,145</b>	<b>6,123</b>
<b>– acquisitions</b>		<b>1,891</b>	<b>(1,462)</b>	<b>429</b>	<b>–</b>
	3,5	13,036	(1,462)	11,574	6,123
Share of profit of joint ventures and associated undertakings	3	5	(19)	(14)	605
<b>Profit on ordinary activities before interest</b>		<b>13,041</b>	<b>(1,481)</b>	<b>11,560</b>	<b>6,728</b>
Interest receivable and similar income		831	–	831	331
Interest payable and similar charges	6	(1,071)	–	(1,071)	(950)
<b>Profit on ordinary activities before taxation</b>		<b>12,801</b>	<b>(1,481)</b>	<b>11,320</b>	<b>6,109</b>
Tax on profit on ordinary activities	7	(1,132)	–	(1,132)	(521)
<b>Profit on ordinary activities after taxation</b>		<b>11,669</b>	<b>(1,481)</b>	<b>10,188</b>	<b>5,588</b>
Equity minority interests		(23)	–	(23)	–
<b>Retained profit for the financial year</b>	21	<b>11,646</b>	<b>(1,481)</b>	<b>10,165</b>	<b>5,588</b>
<b>Earnings per share</b>	8	<b>25.3p</b>	<b>(3.2p)</b>	<b>22.1p</b>	<b>15.2p</b>
<b>Diluted earnings per share</b>	8	<b>24.8p</b>	<b>(3.1p)</b>	<b>21.7p</b>	<b>15.0p</b>

# **CONSOLIDATED BALANCE SHEET**

31 October 2000

		2000	1999
		£000	Restated £000
<b>Fixed assets</b>	<b>Note</b>		
Intangible assets	9	44,094	–
Tangible assets	10	128,507	65,369
Investments	11	1,495	3,775
		<u>174,096</u>	<u>69,144</u>
<b>Current assets</b>			
Stocks	13	1,297	108
Debtors	14	3,937	1,231
Cash at bank and in hand		17,857	15,479
		<u>23,091</u>	<u>16,818</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(30,288)</u>	<u>(12,364)</u>
<b>Net current (liabilities)/assets</b>		<u>(7,197)</u>	<u>4,454</u>
<b>Total assets less current liabilities</b>		<b>166,899</b>	<b>73,598</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>(19,137)</b>	<b>(1,321)</b>
<b>Minority interests</b>			
Equity minority interests		(139)	–
		<u>147,623</u>	<u>72,277</u>
<b>Capital and reserves</b>			
Called up share capital	20	11,457	10,568
Shares to be issued	21	27,010	–
Share premium account	21	98,383	60,200
Profit and loss account	21	10,773	1,509
<b>Equity shareholders' funds</b>		<u>147,623</u>	<u>72,277</u>

These financial statements were approved by the Board of Directors on 25 January 2001.

Signed on behalf of the Board of Directors

**M W BALFOUR**  
Director



**N R CARTWRIGHT**  
Director



**COMPANY BALANCE SHEET**  
31 October 2000

	Note	2000 £000	1999 £000
<b>Fixed assets</b>			
Tangible assets	10	1,775	183
Investments	11	63,305	14,705
		<u>65,080</u>	<u>14,888</u>
<b>Current assets</b>			
Debtors	14	69,349	42,224
Cash at bank and in hand		14,537	15,422
		<u>83,886</u>	<u>57,646</u>
<b>Creditors: amounts falling due within one year</b>	15	(1,769)	(943)
<b>Net current assets</b>		<u>82,117</u>	<u>56,703</u>
<b>Total assets less current liabilities</b>		<u>147,197</u>	<u>71,591</u>
<b>Creditors: amounts falling due after more than one year</b>	16	(9,849)	—
		<u>137,348</u>	<u>71,591</u>
<b>Capital and reserves</b>			
Called up share capital	20	11,457	10,568
Shares to be issued	21	27,010	—
Share premium account	21	98,383	60,200
Profit and loss account	21	498	823
<b>Equity shareholders' funds</b>		<u>137,348</u>	<u>71,591</u>

These financial statements were approved by the Board of Directors on 25 January 2001

Signed on behalf of the Board of Directors

**M W BALFOUR**  
Director



**N R CARTWRIGHT**  
Director





## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 October 2000

	Note	2000 £000	1999 £000
<b>Net cash inflow from operating activities</b>	22	22,193	12,139
Returns on investments and servicing of finance	23	(190)	(701)
Taxation	23	(257)	–
Capital expenditure	23	(51,733)	(27,529)
Acquisitions	23	(4,785)	(9)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(34,772)</b>	<b>(16,100)</b>
Management of liquid resources	23	9,812	(13,000)
Financing	23	33,612	21,038
<b>Increase/(decrease) in cash in the year</b>	24	<b>8,652</b>	<b>(8,062)</b>

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

Year ended 31 October 2000

	2000 £000	1999 £000
<b>Increase/(decrease) in cash in the year</b>	<b>8,652</b>	<b>(8,062)</b>
Cash (outflow)/inflow from (decrease)/increase in liquid resources	(9,812)	13,000
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(8,330)	19,097
Movement in debt arising from cash flows	(9,490)	24,035
Loans and finance leases acquired with subsidiaries	(6,637)	–
New finance leases and hire purchase contracts	(4,774)	(2,502)
<b>Movement in debt in the year</b>	<b>(20,901)</b>	<b>21,533</b>
Net cash/(debt) at beginning of year	11,713	(9,820)
<b>Net (debt)/cash at end of year</b>	<b>(9,188)</b>	<b>11,713</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 October 2000

	2000	1999
	£000	Restated £000
Retained profit for the financial year	10,165	5,588
Currency translation differences	(782)	(305)
Adjustment on acquisition of subsidiary	(119)	—
<b>Total recognised gains and losses relating to the year</b>	<b>9,264</b>	<b>5,283</b>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 October 2000

	2000	1999
	£000	Restated £000
Retained profit for the financial year	10,165	5,588
Other recognised gains and losses relating to the year	(901)	(305)
Shares issued	39,556	41,130
Share issue costs	(484)	(995)
Shares to be issued	27,010	—
Goodwill on investment in joint venture	—	(9)
<b>Net addition to shareholders' funds</b>	<b>75,346</b>	<b>45,409</b>
Opening shareholders' funds	72,277	27,186
Prior year adjustment (note 1)	—	(318)
As restated	72,277	26,868
<b>Net addition to shareholders' funds</b>	<b>75,346</b>	<b>45,409</b>
<b>Closing shareholders' funds</b>	<b>147,623</b>	<b>72,277</b>

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

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### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. No profit and loss account for the Company has been presented as permitted by section 230 of the Companies Act 1985. Its profit for the year was £55,000 (1999 – £352,000).

#### Intangible fixed assets

Purchased goodwill arising on the acquisition of subsidiary undertakings and joint ventures prior to 31 October 1998 was written off directly to reserves. Purchased goodwill arising on acquisitions after 31 October 1998 is capitalised and amortised over its useful economic life being not more than 20 years in accordance with Financial Reporting Standard 10.

#### Foreign exchange

Transactions of UK companies denominated in foreign currencies are translated into sterling 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 and joint ventures are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries and joint ventures at the closing rate is taken directly to reserves.

#### Prior year adjustment – FRS15

During the year the Group has adopted Financial Reporting Standard 15 "Tangible Fixed Assets" and Urgent Issues Task Force Abstract 23 "Application of the transitional rules in FRS 15", which have given rise to a prior year adjustment of £832,000 to shareholders' funds at 31 October 1999, the effect of which has been to reduce the previously reported profits for the financial year ended 31 October 1999 by £514,000.

#### 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

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 1. ACCOUNTING POLICIES (continued)

#### Club opening costs

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

#### Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

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 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 of £65,267,000 (1999: £27,161,000) 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 £2,509,000 (1999 – £4,155,000) Group share of joint ventures' turnover which is accounted for under the gross equity method as required by Financial Reporting Standard 9.

	Turnover		Profit before tax		Net assets	
	2000	1999	2000	1999	2000	1999
				Restated		Restated
	£000	£000	£000	£000	£000	£000
<b>Geographical analysis by location and destination</b>						
United Kingdom	49,725	27,161	11,395	6,109	140,669	72,277
Other European countries	12,288	–	(289)*	–	5,507	–
Far East	3,254	–	214*	–	1,447	–
	<u>65,267</u>	<u>27,161</u>	<u>11,320</u>	<u>6,109</u>	<u>147,623</u>	<u>72,277</u>

\* Profit before tax is stated after amortisation of goodwill of £1,425,000 and £37,000 in other European countries and the Far East respectively.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 3. ANALYSIS OF CONTINUING OPERATIONS

	2000 Continuing £000	2000 Acquisitions £000	2000 Total £000	1999 Restated £000
Turnover	49,725	15,542	65,267	27,161
Cost of sales	(1,663)	(1,017)	(2,680)	(993)
<b>Gross profit</b>	<b>48,062</b>	<b>14,525</b>	<b>62,587</b>	<b>26,168</b>
Administrative expenses	(36,917)	(12,634)	(49,551)	(20,045)
<b>Operating profit before goodwill</b>	<b>11,145</b>	<b>1,891</b>	<b>13,036</b>	<b>6,123</b>
Goodwill amortisation	–	(1,462)	(1,462)	–
<b>Operating profit</b>	<b>11,145</b>	<b>429</b>	<b>11,574</b>	<b>6,123</b>

#### Analysis of the results of joint ventures and associates:

	2000 £000	1999 £000
Share of profit of joint ventures	182	592
Share of (loss)/profit of associated undertakings	(196)	13
	<b>(14)</b>	<b>605</b>

The share of loss of £196,000 for associated undertakings includes losses of £172,000 in respect of acquisitions in the year.

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

#### Directors' emoluments

	Fees £000	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pensions £000	2000 Total £000	1999 Total £000
C D J Pearce	50	–	15	–	–	65	49
M W Balfour	–	175	75	10	17	277	200
N R Cartwright	–	110	35	11	11	167	113
S V Phillips	–	110	35	8	11	164	117
M S Guscott	–	82	35	–	–	117	–
S J Bamford	18	–	–	–	–	18	13
W K Goldsmith	18	–	–	–	–	18	13
E J Denning	7	–	–	–	–	7	–
	<b>93</b>	<b>477</b>	<b>195</b>	<b>29</b>	<b>39</b>	<b>833</b>	<b>505</b>

Mr C D J Pearce provides consultancy services to the Company through an agreement dated 18 February 1997 between C F Partners Limited and the Company, which is cancellable by either party on twelve months written notice. During the year a consultancy fee of £50,000 and performance bonus of £15,000 was payable to C F Partners Limited.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 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:

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

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

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

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

**NOTES TO THE ACCOUNTS**  
Year ended 31 October 2000

**5. OPERATING PROFIT**

	2000	1999
	£000	Restated £000
<b>Operating profit is stated after charging:</b>		
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned assets	4,269	1,522
Leased assets	1,488	707
Goodwill amortisation	1,462	—
Rentals under operating leases:		
Land and buildings	5,005	1,290
Fitness equipment	1,540	838
Motor vehicles	278	87
Auditors' remuneration:		
Audit fees	101	40
Other services	68	67
	<u>          </u>	<u>          </u>

In addition the auditors were paid £106,000 in respect of work carried out on acquisitions made during the year (1999: £32,500 relating to the placing of shares in July 1999).

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	2000	1999
	£000	£000
Bank loans and overdrafts	638	713
Finance leases and hire purchase contracts	433	237
	<u>1,071</u>	<u>950</u>

**7. TAXATION**

	2000	1999
	£000	£000
United Kingdom corporation tax at 30% (1999 – 30%)	578	182
Overseas tax	554	339
	<u>1,132</u>	<u>521</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.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 8. EARNINGS PER SHARE

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

	Earnings £000	2000 Shares '000	EPS Pence	Earnings £000	1999 Shares '000	EPS Pence
<b>Basic before goodwill amortisation</b>	<b>11,646</b>	<b>46,061</b>	<b>25.3</b>	<b>5,588</b>	<b>36,714</b>	<b>15.2</b>
Goodwill amortisation	(1,481)	—	(3.2)	—	—	—
<b>Basic</b>	<b>10,165</b>	<b>46,061</b>	<b>22.1</b>	<b>5,588</b>	<b>36,714</b>	<b>15.2</b>
Effect of dilutive share options	—	843	(0.4)	—	576	(0.2)
<b>Diluted</b>	<b>10,165</b>	<b>46,904</b>	<b>21.7</b>	<b>5,588</b>	<b>37,290</b>	<b>15.0</b>

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 shares to be issued detailed in note 21.

### 9. INTANGIBLE FIXED ASSETS

#### The Group

**Goodwill  
£000**

#### Cost

At 1 November 1999

—

Additions (notes 11 and 12)

45,713

Exchange adjustment

(138)

**At 31 October 2000**

**45,575**

#### Amortisation

At 1 November 1999

—

Charge for the year

1,481

**At 31 October 2000**

**1,481**

#### Net book value

**At 31 October 2000**

**44,094**

At 31 October 1999

—



**NOTES TO THE ACCOUNTS**  
Year ended 31 October 2000

**10. TANGIBLE FIXED ASSETS**

The Group	Land & Buildings £000	Fitness Equipment £000	Fixtures, Fittings & Equipment £000	Computer Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>						
At 1 November 1999	61,644	4,689	2,106	1,021	150	69,610
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)
Exchange adjustment	(335)	(227)	(69)	(65)	(4)	(700)
<b>At 31 October 2000</b>	<b>113,380</b>	<b>16,661</b>	<b>5,837</b>	<b>4,495</b>	<b>236</b>	<b>140,609</b>
<b>Accumulated depreciation</b>						
At 1 November 1999	1,484	1,086	343	380	116	3,409
FRS15 adjustment (note 1)	832	—	—	—	—	832
As restated	2,316	1,086	343	380	116	4,241
Businesses acquired	994	723	143	570	91	2,521
Charge for the year	2,573	2,013	420	735	16	5,757
Disposals	—	(200)	(7)	(33)	(95)	(335)
Exchange adjustment	(20)	(39)	(7)	(14)	(2)	(82)
<b>At 31 October 2000</b>	<b>5,863</b>	<b>3,583</b>	<b>892</b>	<b>1,638</b>	<b>126</b>	<b>12,102</b>
<b>Net book value</b>						
<b>At 31 October 2000</b>	<b>107,517</b>	<b>13,078</b>	<b>4,945</b>	<b>2,857</b>	<b>110</b>	<b>128,507</b>
At 31 October 1999	59,328	3,603	1,763	641	34	65,369

The net book value of land and buildings comprises:

	2000 £000	1999 £000
Freehold	40,896	27,432
Long leasehold	6,231	2,999
Short leasehold	60,390	28,897
	<b>107,517</b>	<b>59,328</b>

Long leaseholds are those leaseholds with more than 50 years unexpired. Included in land and buildings are properties in the course of construction amounting to £10,773,000 (1999 – £12,404,000).

Net book value of fixed assets includes £9,321,000 (1999 – £3,789,000) in respect of assets held under finance leases and hire purchase contracts.

# NOTES TO THE ACCOUNTS

Year ended 31 October 2000

## 10. TANGIBLE FIXED ASSETS (continued)

The Company	Freehold Land & Buildings £000	Fixtures, Fittings & Equipment £000	Computer Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>					
At 1 November 1999	—	21	259	74	354
Additions	1,340	82	330	—	1,752
Disposals	—	—	(27)	(55)	(82)
<b>At 31 October 2000</b>	<b>1,340</b>	<b>103</b>	<b>562</b>	<b>19</b>	<b>2,024</b>
<b>Depreciation</b>					
At 1 November 1999	—	13	90	68	171
Charge for the year	8	(2)	141	(11)	136
Disposals	—	—	(18)	(40)	(58)
<b>At 31 October 2000</b>	<b>8</b>	<b>11</b>	<b>213</b>	<b>17</b>	<b>249</b>
<b>Net book value</b>					
<b>At 31 October 2000</b>	<b>1,332</b>	<b>92</b>	<b>349</b>	<b>2</b>	<b>1,775</b>
At 31 October 1999	—	8	169	6	183

Net book value includes £2,000 (1999 – £6,000) in respect of assets held under finance leases and hire purchase contracts.

## 11. FIXED ASSET INVESTMENTS

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

# NOTES TO THE ACCOUNTS

Year ended 31 October 2000

## 11. FIXED ASSET INVESTMENTS (continued)

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

On 4 November 1999, the Company acquired 40% of the ordinary share capital of Passage Invest NV for a cash consideration of £1,021,000 with goodwill arising of £388,000. On 1 March 2000 the Company acquired the remaining 50% of its German joint venture, Fitness Company Freizeitanlagen GmbH, details of which are set out in note 12.

The company	Investment in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Investment in joint ventures £000	Investment in loan notes in joint venture £000	Investment in associated undertakings £000	Loan to associated undertaking £000	Total £000
At 1 November 1999	4,432	—	9,486	737	50	—	14,705
Additions	44,283	3,170	—	—	1,021	377	48,851
Transfer	8,973	702	(8,973)	(702)	—	—	—
Exchange adjustment	—	(216)	—	(35)	—	—	(251)
<b>At 31 October 2000</b>	<b>57,688</b>	<b>3,656</b>	<b>513</b>	<b>—</b>	<b>1,071</b>	<b>377</b>	<b>63,305</b>

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

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

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

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 12. ACQUISITIONS

#### (i) Fitness Company Freizeitanlagen GmbH

On 25 February 2000, the Company acquired the remaining 50% 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 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 adjustments made to book value at the acquisition date as follows:

	Book value £000	Alignment of accounting policies £000	Other fair value adjustments £000	Fair value £000
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				45,152
				<u>49,880</u>
<b>Satisfied by:</b>				
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% of Fitness Company Freizeitanlagen GmbH in 1998.

# NOTES TO THE ACCOUNTS

Year ended 31 October 2000

## 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:

	1 January 2000 to 25 February 2000 £000	Year ended 31 December 1999 £000
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 total consideration of approximately £3,125,000, £2,192,000 of which was paid on completion with the balance subject to an earnout arrangement based on future profits. The goodwill arising on this transaction was £4,107,000.

### (ii) SPORTathlon Holdings Limited

On 29 June 2000, the Company acquired 90% 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:

	Book value £000	Alignment of accounting policies £000	Other fair value adjustments £000	Fair value £000
Tangible fixed assets	1,309	46	—	1,355
Current assets	2,016	—	(39)	1,977
Liabilities due within one year	(2,139)	—	(33)	(2,172)
	1,186	46	(72)	1,160
Share of net assets acquired				1,044
Goodwill				2,204
Cash consideration				3,248

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

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

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 13. STOCKS

	The Group		The Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Finished goods and goods for resale	1,297	108	—	—

### 14. DEBTORS

	The Group		The Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Trade debtors	1,659	159	13	10
Amounts owed by subsidiary undertakings	—	—	68,980	42,108
Amounts owed by joint ventures and associated undertakings	166	145	39	45
Other debtors	605	34	31	25
Prepayments	1,081	136	216	15
Value Added Tax	426	757	70	21
	3,937	1,231	69,349	42,224

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

	The Group		The Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank overdrafts (note 17)	4,575	1,037	—	—
Bank loans (note 17)	1,860	—	—	—
Obligations under finance leases and hire purchase contracts (note 17)	3,231	1,408	—	8
Trade creditors	6,844	6,721	243	101
Amounts owed to subsidiary undertakings	—	—	170	74
Corporation tax	1,882	555	472	370
Other creditors including taxation and Social Security	819	279	94	58
Accruals and deferred income	11,077	2,364	790	332
	30,288	12,364	1,769	943

# NOTES TO THE ACCOUNTS

Year ended 31 October 2000

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

	The Group		The Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank loans (note 17)	13,838	—	9,849	—
Loan notes (note 17)	672	—	—	—
Obligations under finance leases and hire purchase contracts (note 17)	3,541	1,321	—	—
Accruals and deferred income	1,086	—	—	—
	<u>19,137</u>	<u>1,321</u>	<u>9,849</u>	<u>—</u>

## 17. BORROWINGS

	The Group		The Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank overdrafts	4,575	1,037	—	—
Bank loans	15,698	—	9,849	—
Loan notes	672	—	—	—
Obligations under finance leases and hire purchase contracts	6,772	2,729	—	8
	<u>27,717</u>	<u>3,766</u>	<u>9,849</u>	<u>8</u>
Due within one year	9,666	2,445	—	8
Due after more than one year	18,051	1,321	9,849	—
	<u>27,717</u>	<u>3,766</u>	<u>9,849</u>	<u>8</u>
<b>Analysis of loan repayments</b>				
Bank loans and overdrafts:				
Within one year or on demand	6,435	1,037	—	—
Between one and two years	1,198	—	—	—
Between two and five years	1,788	—	—	—
After five years	10,852	—	9,849	—
Loan notes:				
Between two and five years	672	—	—	—
Obligations under finance leases and hire purchase contracts:				
Within one year or on demand	3,231	1,408	—	8
Between one and two years	2,507	1,054	—	—
Between two and five years	1,034	267	—	—
	<u>27,717</u>	<u>3,766</u>	<u>9,849</u>	<u>8</u>
<b>Amounts partly repayable after five years</b>				
Bank loans:				
Total amount	11,148	—	9,849	—
Amounts due after five years	10,852	—	9,849	—

The bank overdraft is secured by mortgage debentures, including legal mortgages, over the Group's freehold properties. The finance leases and hire purchase contracts are secured on the assets concerned.

**NOTES TO THE ACCOUNTS**  
Year ended 31 October 2000

**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", short-term debtors and creditors have been excluded from all FRS13 disclosures.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so.

The main risks arising from the financial instruments of the Group are interest risk, foreign exchange risk and liquidity risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, were as follows:

**Interest risk:** The Group finances its operations through a mixture of retained profits, bank borrowings and leasing lines of credit. The borrowings are denominated in sterling and are subject to floating rates of interest linked to National Westminster Bank plc base rate to provide flexibility.

**Foreign exchange risk:** The Group translates overseas profits and net assets in accordance with the accounting policy in note 1. Translation differences are dealt with through the Group's statement of total recognised gains and losses.

**Liquidity risk:** Details of the maturity profiles of the Group's funding can be found in note 17.

The total undrawn committed borrowing facilities at the year end amounted to £45,000,000 (1999 – £55,000,000)

<b>Expiry date</b>	<b>2000 £000</b>	<b>1999 £000</b>
In one year or less	20,000	30,000
Between one and two years	–	–
In more than two years	25,000	25,000
<b>Total</b>	<b>45,000</b>	<b>55,000</b>



**NOTES TO THE ACCOUNTS**  
Year ended 31 October 2000

**18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)**

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

**Financial assets**

**Year ended 31 October 2000**

	Non-interest bearing £000	Floating rate £000	Fixed rate £000	Total £000	Weighted average period to maturity Years	Weighted average interest rate %
Sterling	—	229	2,832	3,061	0.3	5.0
German Mark	—	6,712	356	7,068	0.1	4.6
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>	<u>0.2</u>	<u>5.1</u>

Disclosed as:

Cash at bank and in hand 17,857

**Year ended 31 October 1999**

	Non-interest bearing £000	Floating rate £000	Fixed rate £000	Total £000	Weighted average period to maturity Years	Weighted average interest rate %
Sterling	—	2,479	13,000	15,479	0.1	5.1
German Mark	—	—	737	737	0.3	8.0
	<u>—</u>	<u>2,479</u>	<u>13,737</u>	<u>16,216</u>	<u>0.1</u>	<u>5.1</u>

Disclosed as:

Investment in loan notes in joint venture 737

Cash at bank and in hand 15,479

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

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

#### Financial liabilities

Year ended 31 October 2000

	Floating rate £000	Fixed rate £000	Total £000	Weighted average period to maturity Years	Weighted average interest rate %
Sterling	2,648	9,849	12,497	0.3	6.9
German Mark	1,927	5,893	7,820	5.0	5.5
Singapore dollar	—	628	628	0.1	3.8
	<u>4,575</u>	<u>16,370</u>	<u>20,945</u>	<u>2.0</u>	<u>6.3</u>

Disclosed as:

Bank overdrafts

4,575

Bank loans

15,698

Loan notes

672

20,945

Year ended 31 October 1999

	Floating rate £000	Fixed rate £000	Total £000	Weighted average period to maturity Years	Weighted average interest rate %
Sterling	<u>1,037</u>	<u>—</u>	<u>1,037</u>	<u>—</u>	<u>—</u>
Disclosed as:					
Bank overdraft			<u>1,037</u>		

The Group had no derivative financial instruments outstanding at 31 October 2000 and in all cases, in the opinion of the Board, the fair value of the Group's financial assets and liabilities is equal to the book value. Interest on floating rate liabilities is based on the relevant national inter bank rates.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

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

The Group	Provided		Not provided	
	2000 £000	1999 £000	2000 £000	1999 £000
Capital allowances in excess of depreciation	—	—	8,408	5,610
Finance leases	—	—	26	26
Revenue losses	—	—	(16)	(697)
	<u>—</u>	<u>—</u>	<u>8,418</u>	<u>4,939</u>

There was no deferred tax provided or unprovided in the Company.

### 20. CALLED UP SHARE CAPITAL

	Number of shares		Nominal value	
	2000 '000	1999 '000	2000 £000	1999 £000
<b>Authorised</b>				
Ordinary 25p shares	<u>60,000</u>	<u>60,000</u>	<u>15,000</u>	<u>15,000</u>
<b>Allotted, called up and fully paid</b>				
Ordinary 25p shares	<u>45,830</u>	<u>42,272</u>	<u>11,457</u>	<u>10,568</u>

Movements in share capital during the year were as follows:

- (i) On 25 February 2000 the Company issued 1,149,200 shares to part fund the acquisition of the remaining 50% 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.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

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

Under the Company's 1996 Executive Share Option Scheme, Directors and employees held options at 31 October 2000 for 1,496,250 unissued ordinary shares (1999: 900,000) as follows:

Date of grant	At 1 November 1999	Granted during year	Exercised during year	At 31 October 2000	Exercise Period	Exercise Price
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>		

Under the Company's Executive Approved Share Option Scheme, Directors also held options at 31 October 2000 for 5,000 unissued ordinary shares (1999: nil) as follows:

Date of grant	At 1 November 1999	Granted during year	Exercised during year	At 31 October 2000	Exercise Period	Exercise Price
02.10.00	—	5,000	—	5,000	02.10.03 – 01.10.06	1145p

The share price at 31 October 2000 was 1150p. The range during the year was 684p – 1425p.

### 21. RESERVES

	Shares to be issued £000	Share premium account £000	Profit and loss account £000
<b>The Group</b>			
At 1 November 1999 – as previously reported	—	60,200	2,341
Prior year adjustment (note 1)	—	—	(832)
As restated	—	60,200	1,509
Retained profit for the year	—	—	10,165
Currency translation differences	—	—	(782)
Adjustment on acquisition of subsidiary	—	—	(119)
Shares issued	—	38,667	—
Share issue costs	—	(484)	—
Shares to be issued	27,010	—	—
<b>At 31 October 2000</b>	<b>27,010</b>	<b>98,383</b>	<b>10,773</b>

The cumulative amount of goodwill written off directly to profit and loss reserves at 31 October 2000 amounted to £7,817,000 (1999 – £7,817,000).

# NOTES TO THE ACCOUNTS

Year ended 31 October 2000

## 21. RESERVES (continued)

	Shares to be issued £000	Share premium account £000	Profit and loss account £000
<b>The Company</b>			
At 1 November 1999	—	60,200	823
Retained profit for the year	—	—	55
Currency translation differences	—	—	(380)
Shares issued	—	38,667	—
Share issue costs	—	(484)	—
Shares to be issued	27,010	—	—
<b>At 31 October 2000</b>	<b>27,010</b>	<b>98,383</b>	<b>498</b>

Shares to be issued arise under the terms for the acquisition of Fitness Company Freizeitanlagen GmbH, which provides 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. On exercise of the option a further 2,250,800 ordinary shares in the Company will be issued.

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

	2000 £000	1999 Restated £000
<b>Operating profit</b>	<b>11,574</b>	<b>6,123</b>
Depreciation	5,757	2,524
Goodwill amortisation	1,462	—
Increase in stocks	(401)	(10)
(Increase)/decrease in debtors	(18)	120
Increase in creditors	3,658	3,400
Loss/(profit) on disposal of tangible fixed assets	161	(18)
<b>Net cash inflow from operating activities</b>	<b>22,193</b>	<b>12,139</b>

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 23. ANALYSIS OF CASH FLOWS

	£000	2000 £000	£000	1999 £000
<b>Returns on investments and servicing of finance</b>				
Interest received	843		319	
Interest paid	(600)		(783)	
Interest element of finance lease rental payments	(433)		(237)	
		(190)		(701)
<b>Taxation</b>				
Corporation tax paid		(257)		—
<b>Capital expenditure</b>				
Payments to acquire tangible fixed assets	(51,884)		(27,896)	
Receipts from sales of tangible fixed assets	151		367	
		(51,733)		(27,529)
<b>Acquisitions</b>				
Investment in subsidiary undertakings	(3,387)		—	
Investment in joint ventures	—		(9)	
Investment in associated undertaking	(1,398)		—	
		(4,785)		(9)
<b>Management of liquid resources</b>				
Short term deposit		9,812		(13,000)
<b>Financing</b>				
Issue of ordinary share capital	25,766		41,130	
Share issue expenses	(484)		(995)	
Debt due within a year:				
new secured loans/(repayment of)	260		(3,686)	
Debt due beyond a year:				
new secured loans/(repayment of)	10,516		(13,740)	
Capital element of finance lease rental payments	(2,446)		(1,671)	
		33,612		21,038

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

	2000 £000
Net cash inflow from operating activities	1,973
Returns on investments and servicing of finance	(400)
Taxation	(257)
Capital expenditure	(4,470)
Acquisitions	(2,192)
Financing	4,344
Net decrease in cash	(1,002)

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

### 24. ANALYSIS OF NET DEBT

	At 1 November 1999 £000	Cash flow £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 beyond a year	–	(10,516)	(3,322)	–	(13,838)
Debt due within a year	–	(260)	(1,600)	–	(1,860)
Finance leases and hire purchase contracts	(2,729)	2,446	(1,715)	(4,774)	(6,772)
<b>Total net cash/(debt)</b>	<b>11,713</b>	<b>(9,490)</b>	<b>(6,637)</b>	<b>(4,774)</b>	<b>(9,188)</b>

### 25. CAPITAL COMMITMENTS

	The Group		The Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Contracted for but not provided	6,093	5,475	–	–

### 26. OPERATING LEASE COMMITMENTS

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

	Land and buildings		Other	
	2000 £000	1999 £000	2000 £000	1999 £000
<b>Leases which expire:</b>				
Within one year	24	–	43	–
Within two to five years	696	–	2,125	1,278
After five years	6,680	1,809	24	–
	<b>7,400</b>	<b>1,809</b>	<b>2,192</b>	<b>1,278</b>

## NOTES TO THE ACCOUNTS

Year ended 31 October 2000

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### 27. DIRECTORS' INTERESTS IN TRANSACTIONS

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

### 28. CONTINGENT LIABILITIES

The Company is subject to cross guarantees in respect of Group borrowings. The maximum liability at 31 October 2000 was £2,651,000 (1999 – £1,037,000). There were no other contingent liabilities at 31 October 2000 (1999 – £nil).

### 29. 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.

### 30. RELATED PARTY TRANSACTIONS

All intercompany trading has been eliminated upon consolidation of the Group accounts. There were no other related party transactions during the year.

### 31. POST BALANCE SHEET EVENT

On 1 November 2000 the Company acquired the trade and assets of an Australian fitness club operation for a consideration of approximately £4 million.