FITNESS FIRST Plc AND SUBSIDIARIES

Report and Financial Statements

Year ended 31 October 2001

Company Registration No. 3075946

CONTENTS

CHAIRMAN'S STATEMENT
Year ended 31 October 2001

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 purchase 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. `e 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 identifies 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

	Actual October 2001	Actual January 2002	Forecast October 2002
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

CHIEF EXECUTIVE'S REVIEW

UK REVIEW

We have continued 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 continue to 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 a field 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 the 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.

CHIEF EXECUTIVE'S REVIEW

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 roll out 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 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 focussed 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.

Mike Balfour

Chief Executive

31 January 2002

DIRECTORS

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

Christopher D J Pearce, MSI Dip, Chairman, Aged 48

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 52

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 48

Mr Cartwright joined the Group as Finance Director in January 1997 and was appointed International Operations Director in January 2001. During his five years with 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 44

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.

Sean V Phillips, MSc, Sales and Fitness Director, Aged 38

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 to the Board in 1996.

E John Denning, FRICS, non-executive *, Aged 55

Mr Denning's recent appointments have been as Managing Director of Bass Leisure Retail (now Six Continents Retail) and Chief Executive Officer of Voyager Pub Group Ltd. He joined Bass Leisure Retail in 1989 as Property Director, becoming Managing Director in 1997. Prior to this he gained extensive property and multi-site retail experience at Forte Plc and McDonald's Restaurant Ltd.

Walter K Goldsmith, FCA, CIMgt, FRSA, senior non-executive *, Aged 64

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

COMPANY SECRETARY

Mrs S A Cadd (FCIS)

REGISTERED NUMBER

3075946

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PRINCIPAL BANKERS

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EC4R 3UX

SOLICITORS

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EC2A 2HA

FINANCIAL ADVISERS AND STOCKBROKERS

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London
EC2V 7QP

Dresdner Kleinwort Wasserstein
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EC3P 3DB

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Chartered Accountants
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Southampton
SO15 2BZ

REGISTRAR

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390 – 398 High Road
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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 2001.

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 6.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 18. The Directors do not propose the payment of a dividend (2000 - £nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 7. Mr C C Child was elected as a Director of the Company on 28 February 2001. Mr S J Bamford resigned as a Director of the Company on 28 February 2001. Mr M S Guscott has tendered his resignation to be effective from 4 March 2002. In accordance with the Company's Articles of Association, Mr M W Balfour and Mr S V Phillips retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. The unexpired terms of service contract is twelve months for these Directors.

The Directors' interests in the ordinary shares of the Company at 1 November 2000 and at 31 October 2001 were as follows:

	Ordinary shares	
	2001 **12.5p shares**	**2000** **12.5p shares**
C D J Pearce (Chairman)	7,000,000	7,000,000
M W Balfour (Chief Executive)	6,000,000	6,600,000
C C Child (Finance Director)	-	-
N R Cartwright (International Operations Director)	22,406	22,406
M S Guscott (Property Director)	1,181,500	1,181,500
S V Phillips (Sales and Fitness Director)	20,000	20,000
S J Bamford (non-executive) (resigned 28 February 2001)	-	3,932
W K Goldsmith (non-executive)	80,000	80,000
E J Denning (non-executive)	2,519	-

There have been no changes in Directors' interests between the year end and the date of these accounts.

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

SUBSTANTIAL INTERESTS

At 23 January 2002 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	15,721,436	17.09%
Fidelity International	7,465,686	8.12%
C D J Pearce	7,000,000	7.61%
M W Balfour	6,000,000	6.52%
CGNU	4,578,002	4.98%
Zurich Financial Services Group	3,025,378	3.29%

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 operational, sales and financial progress of the business. In January 2002, the annual two day "Momentum" conference was held and attended by over 1,000 employees from all the Group's subsidiaries.

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 2001 were 50 (2000 - 41).

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.

Scadd

S A CADD

Company Secretary
31 January 2002

REPORT OF THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

Remuneration and Nominations Committee

The Committee, comprising the two non-executive Directors, Mr W K Goldsmith and Mr E J Denning, under the chairmanship of Mr E J Denning, 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 December 2001 with increases taking effect from 1 January 2002. 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 2000 Executive Approved 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 2001, 185 key employees held 5,453,500 share options exercisable during various periods as detailed in note 20.

Pension arrangements

The Company contributes to certain executive Directors' personal pension scheme arrangements. None of the Directors are members 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.

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.

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

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

S Cadd

S A CADD

Company Secretary

31 January 2002

CORPORATE GOVERNANCE

Statement of appliance of the principles in the Combined Code

Section 1 of the Combined Code, as appended to the Listing Rules, sets out fourteen Principles of Good Corporate Governance and code provisions which are applicable to listed companies incorporated in the UK.

This statement describes how the Group has applied these principles which are split into the four areas described below.

Directors

The Company is controlled through the Board of Directors which comprises six executive and two 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.

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

Board Meetings

Monthly, all Directors.

Operations Committee	*Audit Committee*	*Remuneration and Nominations Committee*
Monthly;	At least twice yearly;	Twice yearly;
All executive Directors and	W K Goldsmith	W K Goldsmith
senior managers	E J Denning	E J Denning

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 11 and 12 and includes details of Directors' incentive payments and the related performance criteria.

Relations with shareholders

The Company encourages two way communication with both its institutional and private investors and responds quickly to all queries received. The Company undertakes a formal programme of institutional presentations on the announcement of its full year and interim results. Information on the Company is also available to investors through the Group's website www.fitnessfirst.com. 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.

CORPORATE GOVERNANCE (continued)

Accountability and audit

Financial reporting

The Board uses this report, including the Chairman's statement and Chief Executive's review on pages 2 to 6 and the Directors' report on pages 9 and 10, 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 16.

Internal control

As required by the London Stock Exchange the Company has complied with the Combined Code provision on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull committee report) and by reporting in accordance with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board is conscious of the rapid growth of the Group and monitors regularly the need to enhance the resources and systems within the Group to maintain the effectiveness of its internal controls.

The key control procedures are described below:

- *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.

- *Quality and integrity of personnel*

The Board maintains a culture of integrity and quality which 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 and operational 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 IT 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.

- *Risk management reporting process*

The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Group.

A strategic risk review has been conducted during the year, based on each operating subsidiary and department producing a risk register which identifies key risks, the probability of those risks occurring, their impact and the actions being taken to manage those risks to the desired level. The embedded monitoring process provides assurance to the Board as to the adequacy and effectiveness of controls.

- *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 overviews 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.

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.

- *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.

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 2001 with the provisions set out in Section 1 of the Code.

- Following the resignation of Mr S J Bamford on 28 February 2001 the Audit Committee comprised only two non-executive Directors rather than three as recommended by Code provision D.3.1; and
- Following the resignation of Mr S J Bamford on 28 February 2001, non-executive Directors did not comprise one third or more of the Board as recommended by Code provision A.3.1.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 unless it is inappropriate to presume that the Group will continue in business; 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

S A CADD

Company Secretary

31 January 2002

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FITNESS FIRST PLC

We have audited the financial statements of Fitness First Plc for the year ended 31 October 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2001 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

Deloitte & Touche
Chartered Accountants and Registered Auditors
Mountbatten House
1 Grosvenor Square
Southampton SO15 2BZ
31 January 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 October 2001

	Note	2001 Before goodwill £000	2001 Goodwill amortisation £000	2001 Total £000	2000 Total £000
Turnover: Group and share of joint venture		133,352	-	133,352	67,776
Less: Share of joint venture's turnover		(293)	-	(293)	(2,509)
Group turnover - continuing operations		114,675	-	114,675	65,267
- acquisitions		18,384	-	18,384	-
	1,2,3	133,059	-	133,059	65,267
Cost of sales		(9,234)	-	(9,234)	(2,680)
Gross profit		123,825	-	123,825	62,587
Administrative expenses		(100,444)	(2,441)	(102,885)	(51,013)
Operating profit- continuing operations		20,784	(2,286)	18,498	11,574
- acquisitions		2,597	(155)	2,442	-
	3,5	23,381	(2,441)	20,940	11,574
Share of profit of joint venture and associated undertakings	3	(47)	(19)	(66)	(14)
Profit on ordinary activities before interest		23,334	(2,460)	20,874	11,560
Interest receivable and similar income		628	-	628	831
Interest payable and similar charges	6	(3,408)	-	(3,408)	(1,071)
Profit on ordinary activities before taxation	2	20,554	(2,460)	18,094	11,320
Tax on profit on ordinary activities	7	(3,062)	-	(3,062)	(1,132)
Profit on ordinary activities after taxation		17,492	(2,460)	15,032	10,188
Equity minority interests		(306)	-	(306)	(23)
Retained profit for the financial year	21	17,186	(2,460)	14,726	10,165
Earnings per share	8	17.8p	(2.5p)	15.3p	11.0p
Diluted earnings per share	8	17.5p	(2.5p)	15.0p	10.8p

CONSOLIDATED BALANCE SHEET
31 October 2001

	Note	2001 £000	2000 £000
Fixed assets			
Intangible assets	9	46,949	44,094
Tangible assets	10	250,622	128,507
Investments	11	2,223	1,495
		299,794	174,096
Current assets			
Stocks	13	2,697	1,297
Debtors	14	12,313	3,937
Cash at bank and in hand		10,384	17,857
		25,394	23,091
Creditors: amounts falling due within one year	15	(56,920)	(30,288)
Net current liabilities		(31,526)	(7,197)
Total assets less current liabilities		268,268	166,899
Creditors: amounts falling due after more than one year	16	(104,277)	(19,137)
Minority interests			
Equity minority interests		(965)	(139)
		163,026	147,623
Capital and reserves			
Called up share capital	20	11,496	11,457
Shares to be issued	21	27,010	27,010
Share premium account	21	98,586	98,383
Profit and loss account	21	25,934	10,773
Equity shareholders' funds		163,026	147,623

These financial statements were approved by the Board of Directors on 31 January 2002.

Signed on behalf of the Board of Directors

M W BALFOUR
Director

C C CHILD Colin C. Child
Director

COMPANY BALANCE SHEET
31 October 2001

	Note	2001 £000	2000 £000
Fixed assets			
Tangible assets	10	2,961	1,775
Investments	11	126,211	63,305
		129,172	65,080
Current assets			
Debtors	14	101,733	69,349
Cash at bank and in hand		1,428	14,537
		103,161	83,886
Creditors: amounts falling due within one year	15	(3,113)	(1,769)
Net current assets		100,048	82,117
Total assets less current liabilities		229,220	147,197
Creditors: amounts falling due after more than one year	16	(97,124)	(9,849)
		132,096	137,348
Capital and reserves			
Called up share capital	20	11,496	11,457
Shares to be issued	21	27,010	27,010
Share premium account	21	98,586	98,383
Profit and loss account	21	(4,996)	498
Equity shareholders' funds		132,096	137,348

These financial statements were approved by the Board of Directors on 31 January 2002

Signed on behalf of the Board of Directors

M W BALFOUR
Director

C C CHILD
Director

Colin C. Child

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 October 2001

	Note	2001 £000	2000 £000
Net cash inflow from operating activities	22	42,940	22,193
Returns on investments and servicing of finance	23	(2,650)	(190)
Taxation	23	(1,896)	(257)
Capital expenditure	23	(119,627)	(51,733)
Acquisitions and disposals	23	(5,406)	(4,785)
Cash outflow before management of liquid resources and financing		(86,639)	(34,772)
Management of liquid resources	23	3,188	9,812
Financing	23	81,983	33,612
(Decrease)/increase in cash in the year	24	(1,468)	8,652

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
Year ended 31 October 2001

	2001 £000	2000 £000
(Decrease)/increase in cash in the year	(1,468)	8,652
Cash outflow from decrease in liquid resources	(3,188)	(9,812)
Cash inflow from increase in debt and lease financing	(82,011)	(8,330)
Movement in debt arising from cash flows	(86,667)	(9,490)
Loans and finance leases acquired with subsidiaries	(1,856)	(6,637)
Exchange differences	(40)	65
New finance leases and hire purchase contracts	(584)	(4,774)
Movement in debt in the year	(89,147)	(20,836)
Net (debt)/cash at beginning of year	(9,860)	10,976
Net debt at end of year	(99,007)	(9,860)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 October 2001

	2001 £000	2000 £000
Profit for the financial year	14,726	10,165
Currency translation differences	435	(782)
Adjustment on acquisition of subsidiary	-	(119)
Total recognised gains and losses relating to the year	15,161	9,264

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 October 2001

	2001 £000	2000 £000
Profit for the financial year	14,726	10,165
Other recognised gains and losses relating to the year	435	(901)
Shares issued	242	39,556
Share issue costs	-	(484)
Shares to be issued	-	27,010
Net addition to shareholders' funds	15,403	75,346
Opening shareholders' funds	147,623	72,277
Net addition to shareholders' funds	15,403	75,346
Closing shareholders' funds	163,026	147,623

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 loss for the year was £4,890,000 (2000: profit - £55,000).

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 a 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 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.

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.

1. **ACCOUNTING POLICIES (continued)**

Tangible fixed assets
Depreciation is provided on all tangible fixed assets, except for freehold land, based on cost less estimated residual value in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold and long leasehold buildings	2% per annum
Short leasehold buildings	over the term of the lease
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 Company such foreign equity investments are retranslated at the balance sheet date with the associated exchange difference arising taken to reserves in accordance with SSAP 20.

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 of £133,059,000 (2000: £65,267,000) 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 £293,000 (2000 - £2,509,000) Group share of joint venture's turnover which is accounted for under the gross equity method as required by FRS 9.

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

* 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

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

Analysis of the results of joint venture and associates:	2001 £000	2000 £000
Share of profit of joint venture	94	182
Share of loss of associated undertakings	(160)	(196)
	(66)	(14)

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments

Name of Director	Fees £000	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pensions £000	2001 Total £000	2000 Total £000
C D J Pearce	25	35	18	-	-	78	65
M W Balfour	-	250	75	11	29	365	277
C C Child	-	146	50	9	29	234	-
N R Cartwright	-	120	35	12	14	181	167
S V Phillips	-	120	35	8	14	177	164
M S Guscott	-	120	25	-	-	145	117
S J Bamford	7	-	-	-	-	7	18
W K Goldsmith	20	-	-	-	-	20	18
E J Denning	20	-	-	-	-	20	7
	72	791	238	40	86	1,227	833

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 until 1 April 2001, since when he has been remunerated under PAYE. During the year a consultancy fee of £25,000 was paid to C F Partners Limited (2000: consultancy fee of £50,000 and bonus of £15,000).

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 2000	Granted during year	Exercised during year	At 31 October 2001	Exercise Period	Exercise Price
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 by Directors on the exercise of share options was £572,000 (2000: £1,622,000).

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Under the same scheme, the following options were also granted to Directors on 19 November 2001.

Director	Date of grant	No. of shares	Exercise period	Exercise price
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

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 2000 and 31 October 2001	Exercise Period	Exercise Price
S V Phillips	02.10.00	5,000	02.10.03 – 01.10.06	572.5p
N R Cartwright	02.10.00	5,000	02.10.03 – 01.10.06	572.5p

	2001	2000
Average number of persons (including Directors) employed by the Group in the year:		
Office and management	457	195
Operations staff	4,925	3,010
	5,382	3,205

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

5. OPERATING PROFIT

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

In addition the auditors were paid £16,000 in respect of work carried out on acquisitions made during the year (2000: £106,000).

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £000	2000 £000
Bank loans and overdrafts	2,883	638
Finance leases and hire purchase contracts	525	433
	3,408	1,071

7. TAXATION

	2001 £000	2000 £000
United Kingdom corporation tax at 30% (2000 - 30%)	1,228	578
Overseas tax	1,834	554
	3,062	1,132

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:

		2001			2000	
	Earnings £000	Shares '000	EPS Pence	Earnings £000	Shares '000	EPS Pence
Basic - before goodwill amortisation	17,186	96,339	17.8	11,646	92,122	12.6
Goodwill amortisation	(2,460)	-	(2.5)	(1,481)	-	(1.6)
Basic	14,726	96,339	15.3	10,165	92,122	11.0
Effect of dilutive share options	-	2,088	(0.3)	-	1,686	(0.2)
Diluted	14,726	98,427	15.0	10,165	93,808	10.8

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 detailed in note 21.

9. INTANGIBLE FIXED ASSETS

The Group	Goodwill £000
Cost	
At 1 November 2000	45,575
Additions (note 12)	3,777
Exchange adjustment	1,542
At 31 October 2001	50,894
Amortisation	
At 1 November 2000	1,481
Charge for the year	2,460
Exchange adjustment	4
At 31 October 2001	3,945
Net book value	
At 31 October 2001	46,949
At 31 October 2000	44,094

Goodwill additions include £359,000 in respect of addition consideration for acquisitions made in the prior year.

10. TANGIBLE FIXED ASSETS

The Group	Land & Buildings £000	Fitness Equipment £000	Fixtures, Fittings & Equipment £000	Computer Equipment £000	Motor Vehicles £000	Total £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	216,660	37,874	12,619	7,766	748	275,667
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	10,734	8,428	2,273	3,401	209	25,045
Net book value						
At 31 October 2001	205,926	29,446	10,346	4,365	539	250,622
At 31 October 2000	107,509	13,078	4,945	2,865	110	128,507

10. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprises:

	2001 £000	2000 £000
Freehold	57,989	40,888
Long leasehold	14,880	6,231
Short leasehold	133,057	60,390
	205,926	107,509

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 £22,086,000 (2000 - £10,773,000).

The net book value of fixed assets includes £9,181,000 (2000 - £9,321,000) in respect of fixtures, fittings and equipment held under finance leases and hire purchase contracts.

The Company	Freehold Land & Buildings £000	Fixtures, Fittings & Equipment £000	Computer Equipment £000	Motor Vehicles £000	Total £000
Cost					
At 1 November 2000	1,340	103	562	19	2,024
Additions	931	3	356	161	1,451
Disposals	-	-	-	(14)	(14)
At 31 October 2001	2,271	106	918	166	3,461
Depreciation					
At 1 November 2000	8	11	213	17	249
Charge for the year	9	10	221	24	264
Disposals	-	-	-	(13)	(13)
At 31 October 2001	17	21	434	28	500
Net book value					
At 31 October 2001	2,254	85	484	138	2,961
At 31 October 2000	1,332	92	349	2	1,775

The net book value includes £nil (2000 - £2,000) in respect of assets held under finance leases and hire purchase contracts.

11. FIXED ASSET INVESTMENTS

The Group

	Investment in joint venture £000	Investment in associated undertakings £000	Loans to associated undertakings £000	Total £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	747	324	1,152	2,223

	2001 £000	2000 £000
Investment in joint venture:		
Share of gross assets	813	761
Share of gross liabilities	(66)	(108)
	747	653

The Company	Investment in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Investment in joint venture £000	Investment in associated undertakings £000	Loans to associated undertakings £000	Total £000
At 1 November 2000	57,688	3,656	513	1,071	377	63,305
Exchange adjustment	572	(209)	-	(31)	(15)	317
Additions	50,620	11,179	-	-	790	62,589
At 31 October 2001	108,880	14,626	513	1,040	1,152	126,211

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

Name of Company	Country of incorporation or registration	Proportion of ordinary shares held
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

11. FIXED ASSET INVESTMENTS (continued)

Associates:	Country of incorporation or registration	Proportion of ordinary shares held
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. Following the year end the Company increased its investment in Passage Invest NV to 52% as detailed in note 31.

12. ACQUISITIONS

On 1 November 2000, the Company acquired 85% 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. 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

	The Group		The Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Finished goods and goods for resale	2,697	1,297	-	-

14. DEBTORS

	The Group		The Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade debtors	1,891	1,659	98	13
Amounts owed by subsidiary undertakings	-	-	100,403	68,980
Amounts owed by joint venture and associated undertakings	149	166	46	39
Other debtors	3,667	605	600	31
Prepayments	2,230	1,081	507	216
Value Added Tax	4,376	426	79	70
	12,313	3,937	101,733	69,349

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

	The Group		The Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Bank overdrafts (note 17)	1,758	4,575	-	-
Bank loans (note 17)	2,234	1,860	-	-
Loan notes (note 17)	712	-	-	-
Obligations under finance leases and hire purchase contracts (note 17)	3,328	3,231	-	-
Trade creditors	25,696	6,844	431	243
Amounts owed to subsidiary undertakings	-	-	387	170
Corporation tax	3,047	1,882	355	472
Other creditors including taxation and Social Security	2,722	819	152	94
Accruals and deferred income	17,423	11,077	1,788	790
	56,920	30,288	3,113	1,769

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

	The Group		The Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Bank loans (note 17)	100,083	13,838	97,124	9,849
Loan notes (note 17)	-	672	-	-
Obligations under finance leases and hire purchase contracts (note 17)	1,876	3,541	-	-
Accruals and deferred income	2,318	1,086	-	-
	104,277	19,137	97,124	9,849

17. BORROWINGS

	The Group		The Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank overdrafts	1,758	4,575	-	-
Bank loans	102,317	15,698	97,124	9,849
Loan notes	712	672	-	-
Obligations under finance leases and hire purchase contracts	5,204	6,772	-	-
	109,991	27,717	97,124	9,849
Due within one year	8,032	9,666	-	-
Due after more than one year	101,959	18,051	97,124	9,849
	109,991	27,717	97,124	9,849

Analysis of loan repayments

	The Group 2001 £000	The Group 2000 £000	The Company 2001 £000	The Company 2000 £000
Bank loans and overdrafts:				
Within one year or on demand	3,992	6,435	-	-
Between one and two years	1,276	1,198	-	-
Between two and five years	97,814	1,788	97,124	-
After five years	993	10,852	-	9,849
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	3,328	3,231	-	-
Between one and two years	1,351	2,507	-	-
Between two and five years	525	1,034	-	-
	109,991	27,717	97,124	9,849

Amounts partly repayable after five years

	The Group 2001 £000	The Group 2000 £000	The Company 2001 £000	The Company 2000 £000
Bank loans:				
Total amount	4,231	11,148	-	9,849

The bank overdraft is secured by a mortgage debenture on 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" ("FRS13"), short-term debtors and creditors have been excluded from all FRS13 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 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	81,439	45,000

Risk management

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

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

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

	Non-interest bearing £000	Floating rate £000	Fixed rate £000	Total £000
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
	696	10,288	-	10,984
Disclosed as:				
Cash at bank and in hand				10,384
Other debtor – loan receivable after more than one year				600
				10,984

Year ended 31 October 2000

	Non-interest bearing £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	-	229	2,832	3,061
Euro	-	6,712	356	7,068
Hong Kong dollar	328	150	-	478
Australian dollar	-	7,250	-	7,250
	328	14,341	3,188	17,857
Disclosed as:				
Cash at bank and in hand				17,857

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

	Floating rate £000	Fixed rate £000	Total £000	Weighted average period until maturity Years	Weighted average interest rate %
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
	72,525	37,466	109,991	3.0	5.1

Disclosed as:	
Bank overdrafts	1,758
Bank loans	102,317
Loan notes	712
Obligations under finance leases and hire purchase contracts	5,204
	109,991

Year ended 31 October 2000

	Floating rate £000	Fixed rate £000	Total £000	Weighted average period until maturity Years	Weighted average interest rate %
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
	11,975	15,742	27,717	2.0	6.3

Disclosed as:	
Bank overdrafts	4,575
Bank loans	15,698
Loan notes	672
Obligations under finance leases and hire purchase contracts	6,772
	27,717

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

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.

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

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
	109,991	27,717

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.

	Carrying amount 2001 £000	Carrying amount 2000 £000	Estimated fair value 2001 £000	Estimated fair value 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
	109,991	27,717	109,991	27,717
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 debtors – loan	600	-	600	-
	10,984	17,857	10,984	17,857
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 to fund 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. As at 31 October 2001, these exposures were as follows:

Currency Exposures

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

Currency Exposures

		Net foreign currency monetary assets/(liabilities)			
			Australian	Hong Kong	
	Sterling	Euro	dollar	dollar	Total
31 October 2000	£000	£000	£000	£000	£000
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:

The Group	Provided 2001 £000	Provided 2000 £000	Not provided 2001 £000	Not provided 2000 £000
Capital allowances in excess of depreciation	-	-	12,821	8,408
Finance leases	-	-	16	26
Revenue losses	-	-	(1,047)	(16)
	-	-	11,790	8,418

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

20. CALLED UP SHARE CAPITAL

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

Movements in share capital during the year were as follows:

i) On 28 February 2001 the Company resolved that each 25p ordinary share be sub-divided into two new ordinary shares of 12.5p each.

ii) On 26 March 2001 the Company issued 180,500 shares for a cash consideration of 78p each following the exercise of share options.

iii) 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 at 31 October 2001 for 4,545,500 unissued ordinary shares (2000 - 2,992,500) as follows:

Date of grant	At 1 November 2000	Granted during year	Exercised during year	At 31 October 2001	Exercise period	Exercise price
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
	2,992,500	1,863,500	(310,500)	4,545,500		

Under the Company's 2000 Executive Approved Share Option Scheme, Directors and employees also held options at 31 October 2001 for 908,000 unissued ordinary shares (2000 - 10,000) as follows:

Date of grant	At 1 November 2000	Granted during year	Exercised during year	At 31 October 2001	Exercise period	Exercise Price
02.10.00	10,000	-	-	10,000	02.10.03 – 01.10.06	572.5p
10.10.01	-	898,000	-	898,000	10.10.04 – 09.10.07	395.5p
	10,000	898,000	-	908,000		

The share price at 31 October 2001 was 430p. The range during the year was 372.5p – 662.5p.

21. RESERVES

	Shares to be issued £000	Share premium account £000	Profit and loss account £000
The Group			
At 1 November 2000	27,010	98,383	10,773
Retained profit for the year	-	-	14,726
Currency translation differences	-	-	435
Shares issued	-	203	-
At 31 October 2001	27,010	98,586	25,934

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

	Shares to be issued £000	Share premium account £000	Profit and loss account £000
The Company			
At 1 November 2000	27,010	98,383	498
Loss for the year	-	-	(4,890)
Currency translation differences	-	-	(604)
Shares issued	-	203	-
At 31 October 2001	27,010	98,586	(4,996)

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 the date of this report, as detailed in note 31.

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

	2001 £000	2000 £000
Operating profit	20,940	11,574
Depreciation	11,555	5,757
Goodwill amortisation	2,441	1,462
Increase in stocks	(1,400)	(401)
Increase in debtors	(8,046)	(18)
Increase in creditors	17,450	3,658
Loss on disposal of tangible fixed assets	-	161
Net cash inflow from operating activities	42,940	22,193

23. ANALYSIS OF CASH FLOWS

		2001		2000
	£000	£000	£000	£000
Returns on investments and servicing of finance				
Interest received	628		843	
Interest paid	(2,753)		(600)	
Interest element of finance lease rental payments	(525)		(433)	
		(2,650)		(190)
Taxation				
Corporation tax paid		(1,896)		(257)
Capital expenditure				
Payments to acquire tangible fixed assets	(119,739)		(51,884)	
Receipts from sales of tangible fixed assets	112		151	
		(119,627)		(51,733)
Acquisitions and disposals				
Investment in subsidiary undertakings	(5,406)		(3,387)	
Investment in associated undertakings	-		(1,398)	
		(5,406)		(4,785)
Management of liquid resources				
Short term deposit		3,188		9,812
Financing				
Issue of ordinary share capital	242		25,766	
Share issue expenses	-		(484)	
Debt due within one year:				
repayment of bank loans	(1,860)		260	
Debt due after one year:				
new bank loans	88,479		10,516	
Other loan due after 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	(4,008)		(2,446)	
		81,983		33,612

24. ANALYSIS OF NET DEBT

	At 1 Nov 2000 £000	Cash flow £000	Debts acquired £000	Other non cash changes £000	At 31 Oct 2001 £000
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)
	13,282	(4,656)	-	-	8,626
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 loan 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	(9,860)	(86,667)	(1,856)	(624)	(99,007)

25. CAPITAL COMMITMENTS

	The Group		The Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Contracted for but not provided	16,776	6,093	-	-

26. OPERATING LEASE COMMITMENTS

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

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

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 2001 was £281,000 (2000 - £2,651,000). There were no other contingent liabilities at 31 October 2001 (2000 - £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 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% to 52% for nil consideration.

On the date of this report the Company announced a proposed equity fund raising. The additional funds will be used to finance the Group's development.

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