Company Registration No. 05509273

FITNESS PREFERRED LIMITED

Report and Financial Statements

Year ended 31 October 2010

REPORT AND FINANCIAL STATEMENTS 31 OCTOBER 2010

CONTENTS

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

C D Waggett
D E Tatton-Brown
J D Wilhams

SECRETARY

S A Cadd

REGISTERED OFFICE

58 Fleets Lane
Poole
Dorset
BH15 3BT

BANKERS

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

Mizuho Corporate Bank Ltd
Bracken House
One Friday Street
London
EC4M 9JA

SOLICITORS

Dickson Minto W S
Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Freshfields
65 Fleet Street
London
EC4Y 1HS

AUDITORS

Deloitte LLP
Southampton, United Kingdom

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 October 2010

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the Company is as holder of external Preference shares

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Directors are satisfied with the results of the Company and anticipate similar results in the year ahead During the year the Company sold its 100% investment in Fitness First Loan Stock Ltd ("FFLS") to Fitness First Securities Ltd ("FFS") on a share for share exchange basis, with the Company receiving one ordinary share in FFS for each share sold in FFLS A total of 100 £1 ordinary shares and 3,853,961 £1 preference shares in FFLS were exchanged for 3,854,061 £0 01 ordinary shares in FFS

Prior to the disposal of FFLS, intercompany loans totalling £261 4m owed by FFLS to the Company were waived The right to receive payment of the remaining £213 0m intercompany loans owed by FFLS were then sold to FFS for £213 0m

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 6 A dividend of £63,751,000 (2009 £55,433,000) has been accrued in respect of the external 'A and B' preference shares, and £64,500 (2009 £56,500) has been accrued relating to inter-company 'C' dividends, consistent with the rights of those shares, as disclosed in note 8 to the accounts

GOING CONCERN

The financial statements have been prepared on the going concern basis and the Directors have satisfied themselves that the Company is a going concern, having adequate resources to continue in operational existence for the foreseeable future, after considering the principal risks and uncertainties of the company including the current year loss and net asset position and despite the current uncertain economic conditions As the Company was formed to hold external preference shares on behalf of the Group, its operations and financial resources are therefore linked directly to, and are dependent on, the performance and support of the Group Financial support is evidenced by a letter of support from the parent company covering 12 months from the date of these financial statements

The Directors have made enquiries as to the financial position of the Group, and its ability therefore to provide support to the entity should it be required The Directors are satisfied that the support provided by the Group allows them to prepare the accounts of Fitness Preferred Limited as a going concern The financial statements of Fitness First Group Limited, which are publicly available, include full disclosure of the Group's going concern position

Key Performance Indicators

As the Company's principal activity is that of a management company for the Group, the Directors do not consider KPIs appropriate to the management of the business The consolidated financial statements of Fitness First Group Limited include full disclosure of KPIs used to monitor the Group's performance

Risks and Uncertainties

The management of the business is subject to a number of potential risks and uncertainties These could have a material impact on the Company's long term performance and could cause actual results to differ materially from expected and historical results The key areas of risk to the business are macro-economic factors The management of these risks is coordinated at Group level, and full disclosure of this is provided in the Fitness First Group Limited financial statements

DIRECTORS

The present membership of the Board is set out on page 1 During the year Z Byng-Maddick resigned on 13 November 2009 and D E Tatton-Brown was appointed as a Director on 22 February 2010

AUDITORS

Each of the persons who is a Director of the Company at the date when this report is approved confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

DIRECTORS' REPORT (CONTINUED)

AUDITORS (CONTINUED)

- the Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

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

J. Williams

J D Williams
Director
23rd March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FITNESS PREFERRED LIMITED

We have audited the financial statements of Fitness Preferred Limited for the year ended 31 October 2010 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholder's funds and the related notes 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 October 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Darren Longley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Southampton, United Kingdom
23 March 2011

PROFIT AND LOSS ACCOUNT
For the year ended 31 October 2010

	Note	2010 £000	2009 £000
Operating profit		-	-
Interest payable	3	(63,816)	(55,490)
Interest receivable	3	58,467	55,490
Net interest payable	3	(5,349)	-
Loss on ordinary activities before tax		(5,349)	-
Tax on ordinary activities	4	-	-
Loss for the financial year	10	(5,349)	-

All results arise from continuing operations

There are no recognised gains and losses for the year ended 31 October 2010 or the preceding year other than as stated in the profit and loss account Accordingly, a statement of total recognised gains and losses has not been presented

BALANCE SHEET
As at 31 October 2010

	Note	2010 £000	2009 £000
Fixed assets			
Investments	5	271,235	9,788
Current Assets			
Other debtors	6	265	265
Net current assets		265	265
Intercompany debtors due after more than one year	7	218,339	421,319
Total assets less current liabilities		489,839	431,372
Creditors amounts falling due after more than one year	8	(489,254)	(425,438)
Net assets		585	5,934
Capital and reserves			
Called up share capital	9	-	-
Share premium account	10	5,934	5,934
Profit and loss account	10	(5,349)	-
Total shareholder's funds		585	5,934

These financial statements of Fitness Preferred Limited, registration number 05509273, were approved by the Board of Directors and authorised for issue on 23rd March 2011

Signed on behalf of the Board of Directors

J. Williams

J D Williams
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
For the year ended 31 October 2010

	2010 £000	2009 £000
Loss for the financial year	(5,349)	-
Net decrease in shareholder's funds	(5,349)	-
Opening shareholder's funds	5,934	5,934
Closing shareholder's funds	585	5,934

NOTES TO THE ACCOUNTS
For the year ended 31 October 2010

1. ACCOUNTING POLICIES

The principal accounting policies adopted are described below They have all been applied consistently throughout the current and prior year

Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

The financial statements are prepared on the basis that the Company is a going concern This is discussed in the Directors' Report on page 2

Going concern
The financial statements have been prepared on the going concern basis and the Directors have satisfied themselves that the Company is a going concern, having adequate resources to continue in operational existence for the foreseeable future, after considering the principal risks and uncertainties of the company including the current year loss and net asset position and despite the current uncertain economic conditions As the Company was formed to hold external preference shares on behalf of the Group, its operations and financial resources are therefore linked directly to, and are dependent on, the performance and support of the Group Financial support is evidenced by a letter of support from the parent company covering 12 months from the date of these financial statements

The Directors have made enquiries as to the financial position of the Group, and it's ability therefore to provide support to the entity should it be required The Directors are satisfied that the support provided by the Group allows them to prepare the accounts of Fitness Preferred Limited as a going concern The financial statements of Fitness First Group Limited, which are publicly available, include full disclosure of the Group's going concern position

Consolidated financial statements
In accordance with s400 of the Companies Act 2006 the Company is exempt from producing group financial statements since it is a wholly owned subsidiary of Fitness First Group Limited which provides consolidated financial statements that are publicly available

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

Taxation
Current tax is provided at amounts expected to be paid (or recovered) based on the tax rates and laws applicable at the balance sheet date

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

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

NOTES TO THE ACCOUNTS (CONTINUED)
For the year ended 31 October 2010

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities

Cumulative redeemable preference shares are included in the balance sheet as liabilities in accordance with FRS 25

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

3. INFORMATION REGARDING DIRECTORS, EMPLOYEES AND AUDITORS' REMUNERATION

The Directors are remunerated by a subsidiary undertaking, Fitness First Limited, in respect of their services to various companies The total remuneration borne by Fitness First Limited for the Directors of the Company was £812,000 (2009 £881,000) The amount of remuneration allocated for their services as Directors of the Company is £nil (2009 £nil) With the exception of the Directors and the Company Secretary, there were no other persons employed by the Company during the period (2009 nil) An audit fee of £122,000 (2009 £96,000) has been borne by another Group company in respect of the Group audit

NOTES TO THE ACCOUNTS (CONTINUED)
For the year ended 31 October 2010

3 NET INTEREST PAYABLE

	2010 £000	2009 £000
Interest payable and similar charges		
Cumulative preference share dividend	63,816	55,490
Interest receivable and similar income		
Due from subsidiary on loans	(5,339)	-
Due from fellow subsidiary undertakings on loans	(49,981)	(52,203)
Due from fellow subsidiary undertakings on 15% preference shares	(3,147)	(3,287)
	(58,467)	(55,490)
Total	5,349	-

4. TAX ON LOSS ON ORDINARY ACTIVITIES

Current tax	2010 £000	2009 £000
UK tax charge	-	-

The tax charge for the year is as expected (2009 as expected) from applying the UK corporation tax rate of 28 0% (2009 28 0%) for the reasons set out in the following reconciliation

	2010 £000	2009 £000
Loss on ordinary activities before tax	(5,349)	-
Tax credit at 28 0% (2009 28 0%) thereon	1,497	-
Effects of		
Losses (received from)/given away to other group companies for nil consideration	(996)	1,807
Non allowable dividends	(17,850)	(15,521)
Group income	863	230
Difference between accrued and paid interest	16,486	13,484
Current tax charge	-	-

There are no amounts of provided or unprovided deferred tax at the balance sheet date (2009 none)

NOTES TO THE ACCOUNTS
For the year ended 31 October 2010

5. FIXED ASSET INVESTMENTS

	Investment in subsidiary undertakings £
At 1 November	9,788
Additions	271,235
Disposals	(9,788)
At 31 October 2010	271,235

Name of Company	Country of incorporation or registration	Proportion of ordinary shares held
Principal subsidiaries:		
Fitness First Securities Limited	UK	100% directly

During the year the Company sold its 100% investment in Fitness First Loan Stock Ltd ("FFLS") to Fitness First Securities Ltd ("FFS") on a share for share exchange basis, with the Company receiving one ordinary share in FFS for each share sold in FFLS A total of 100 £1 ordinary shares and 3,853,961 £1 preference shares in FFLS were exchanged for 3,854,061 £0 01 ordinary shares in FFS

Additions to fixed asset investments in the year relate to the acquisition of shares in FFS, as detailed above, and the loan waiver explained in note 7

6. DEBTORS

	2010 £000	2009 £000
Other debtors	265	265

7. DEBTORS – DUE AFTER ONE YEAR

	2010 £000	2009 £000
Amounts owed by subsidiary undertakings	218,339	421,319

The loans owed by the subsidiary bear interest at 15% per annum and the Company has confirmed that they will not seek repayment within 12 months from the date of signing the accounts

Prior to the disposal of FFLS, intercompany loans totalling £261 4m owed by FFLS to the Company were waived The right to receive payment of the remaining £213 0m intercompany loans owed by FFLS were then sold to FFS for £213 0m The loan waiver has been treated as a capital contribution

NOTES TO THE ACCOUNTS
For the year ended 31 October 2010

8 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010 £000	2009 £000
Cumulative redeemable preference dividends accrued	242,758	179,007
Cumulative redeemable preference shares	246,246	246,246
Amounts owed to ultimate parent company *	250	185
	489,254	425,438

* The amounts owed to the ultimate parent company relate to accrued dividends in respect of the 'C' preference shares

Cumulative 'A', 'B' and 'C' redeemable preference shares carry an entitlement to dividend at the rate of 15p per share per annum, payable on redemption They may be redeemed at £1 00 per share at any time after 8 May 2006 at the option of the Company and, in any event, will be redeemed at £1 00 per share on 6 November 2015, together with the accrued dividend Holders of the redeemable preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 00 per share together with any arrears of dividend As at 31 October 2010 accrued dividends in respect of 'A' and 'B' preference shares amounts to £242,758,000 (2009 £179,007,000) and accrued dividends in respect of 'C' preference shares amounts to £250,000 (2009 £185,500) The 'A' and 'B' dividend accrued during the year amounted to £63,751,000 (2009 £55,433,000), the 'C' dividend accrued during the year amounted to £64,500 (2009 £56,500)

9. CALLED UP SHARE CAPITAL

	Number of shares 2010 No.	Nominal value 2010 £000	Number of shares 2009 No.	Nominal value 2009 £000
Authorised, Allotted, called up and fully paid				
Ordinary shares of £1 each	100	-	100	-
'A' preference shares of £1 each	231,568,666	231,569	231,568,666	231,569
'B' preference shares of £1 each	14,428,956	14,429	14,428,956	14,429
'C' preference shares of £1 each	248,206	248	248,206	248
	246,245,828	246,246	246,245,828	246,246

The preference shares are presented as a liability (see note 8) and accordingly are excluded from called-up share capital in the balance sheet

NOTES TO THE ACCOUNTS
For the year ended 31 October 2010

10. RESERVES

	Share premium account £000	Profit and loss account £000
At 1 November 2009 and 31 October 2010	5,934	-
Loss for the year	-	(5,349)
At 31 October 2010	5,934	(5,349)

11. DIRECTORS' INTERESTS IN TRANSACTIONS

There were no contracts of significance with any Director during the current or previous year

12. CASH FLOW STATEMENT

The Company has taken advantage of the exemption contained in FRS 1 not to prepare a cash flow statement, since it is a wholly owned subsidiary of Fitness First Group Limited, which provides consolidated financial statements which are publicly available

13. RELATED PARTY TRANSACTIONS

The Company is taking advantage of an exemption conferred by FRS 8 which provides exemption for disclosure of transactions between two or more members of a group, provided that all subsidiaries which are party to the transaction are wholly owned by the same group

14. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party, which heads the largest and smallest group for which consolidated accounts are produced and of which the Company is a member, is Fitness First Group Limited (which is ultimately owned and controlled by funds advised by BC Partners which own shares representing 80% of the issued share capital of that company), a company incorporated in England Copies of the accounts of Fitness First Group Limited can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ

15. SUBSEQUENT EVENTS

The Directors believe that there are no significant post balance sheet events which require disclosure