Registered number: 02973240

The Third Space Group Limited

Report and Financial Statements

31 December 2019

Directors
I Mahoney
J Penny
S Shah
C Waggett

Registered Number
02973240

Registered Office
16-19 Canada Square
London
E14 5ER

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2019.

Principal activity and review of the business

The principal activity of the Company is the provision of management services to the Third Space Holdings group of companies.

2019 was another positive year for the Company. The wider group continued to invest in various capital projects and the building of a new club, along with continued investments in the service propositions. All these investments are based around the Group's key brand pillars:

- Positive fitness philosophy – how fitness makes you feel: confident, in control, happy
- Club not gym – broader lifestyle offering
- Best in class – to be the best in every aspect of what we do
- Personalised and simplified – to make the whole member journey personal: "taken care of"

Company turnover increased to £5.9m (2018: £5.1m) up 16% on the prior year and profit for the year increased to £0.8m (2018: £0.7m), in line with the increase in central management services required as the wider group expands.

Other key performance indicators monitored by the wider group, which in turn will impact on the level of management services required, include:

- Membership count – club membership numbers, including new member sales and leavers
- Moving annual attrition percentage – rate of turnover of members leaving.
- Health and safety – monitoring the number of incidents to ensure corrective and preventative action is taken
- Member experience – measuring the level of member satisfaction

The directors are satisfied with performance in 2019 against the above.

The impact of the COVID pandemic in 2020 is described in more detail within the Director's Report below.

Strategic report (continued)

Principal risks and uncertainties

COVID19 risk

The spread of COVID19 globally, and specifically the UK, poses a risk to the Group of which the Company is a member ('the Group'). The virus has touched all corners of the UK economy, and the Group is not alone in feeling is impact. The UK government has implemented various containment strategies to curb the spread of the virus, in particular through the use of lockdown restrictions such as social distancing and mandatory closures of businesses including health clubs. These containment strategies may continue in the future for an undetermined period.

The Group is mitigating the risk of COVID19 to the business through:

- Use of government support schemes such as furloughing of employees that are unable to work during lockdowns or due to reduced capacity in the clubs, business rates holidays and VAT payment deferments
- Members and staff are temperature checked on arrival to the clubs and various social distancing measures are put in place to avoid close interactions where possible
- Careful consideration of future investment decisions

Our supply chains have not been materially impacted

Price risk

The Company is exposed to price risk due to normal inflationary pressures of goods and services in the UK only.

Financial instrument risks

In conducting its operative activities the Company engages in various types of basic financial instruments. In mitigating exposure arising from its use of financial instruments, the management team conducts an annual risk assessment of the business and manages the risks identified to proactively prevent any material and adverse risk to the company's future operating profits or financial position. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of liquidity risk.

The Company is exposed to financial instruments risk from balances with related parties that arise as a result of group treasury arrangements. The Company mitigates exposure by only transacting with companies under common control who are part of the same group of which the Company is a member.

Liquidity Risk

The Company actively maintains a debt financing facility, managed at Group level, which is designed to ensure the Company has sufficient available funds for operations and planned expansions.

Credit risk

The Company is exposed to credit risk from third party customers. The company manages exposure to credit risk by actively monitoring payment profiles of customers..

Strategic report (continued)

Principal risks and uncertainties (continued)

Investment impairment risk

The directors understanding of the risks associated with the investments held by the entity relate to the potential impairment of those investments. To identify any risk of impairment in a timely manner, the company reviews the financial performance of its investments on a regular basis. This review has indicated that all active investments are not exhibiting indicators of impairment.

Approved by the Board on 30/3/21 and signed on its behalf by:

Samir Shah
Director
Date 30/3/21

Directors' report

The directors present their report and financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year after taxation amounted to £849,543 (2018: £738,339). The directors do not recommend a dividend (2018: £Nil).

Directors

The directors who served the company during the year and to the date of approving these financial statements for issue are stated on page 1.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

The Company is dependent on a parent, Third Space Holdings Limited, for support, further detail on parent undertakings is provided in Note 17 to the financial statements. Treasury and cash flow is managed on a group basis within Third Space Holdings Limited Group and the assets of the Company and its fellow subsidiaries are held as security over banking relationships held by Third Space Holdings Limited. The Directors therefore consider it is appropriate to perform their going concern assessment at group level in order to conclude whether the parent can provide sufficient support.

After the balance sheet date of these accounts, the business has been impacted by the COVID-19 pandemic, as described further in the subsequent events section below. Understandably, this unprecedented trading uncertainty has impacted the Directors' forecasts for the short-term with a consequential impact on the Group's ability to meet its banking covenants. Certain covenants are currently forecast to be breached until March 2022, but there exist a wide range of possible outcomes depending on how quickly trade returns following the easing of lockdown restrictions. However, the key liquidity strength covenant test is never breached, and so the Company is forecast to always be in a position of having sufficient available funds to meets its ongoing commitments. If the banking covenants are actually breached, and the Group is unable to obtain a covenant waiver, the bank loan would be repayable on demand. In such an event, the Company would have to seek funding from alternative sources to repay the bank loan. Accordingly, a material uncertainty exists that may cast significant doubt upon the company's ability to continue as a going concern. However, the Directors have been in discussions with the Group's lenders to address these covenants and are confident that the lender will support the business over the medium term and beyond once greater clarity on trading again becomes evident.

The Directors' forecasts are based on expected working capital requirements and expected capital projects. In making these assessments the Directors have considered the impact of COVID-19 on Group cashflows and liquidity of the twelve months period from the approval of these financial statements. This assessment also takes in to account the measures available to the Group to preserve cash and reduce discretionary expenditure.

Notwithstanding the material uncertainty described above, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of these financial statements and for the foreseeable future thereafter. As such, the Directors are confident that it is appropriate to prepare these financial statements on a going concern basis.

These financial statements do not include the adjustments that would result if the Company, or the Group, were unable to continue as a going concern.

Directors report (continued)

Subsequent events

COVID19

Following a successful 2019, the financial year 2020 continued with a strong start, achieving record membership levels and the launch of a new 48,000 square foot landmark club in Islington. The business was on track to deliver excellent revenue and EBITDA growth – in the first two months of 2020, total revenue was up 13%.

From mid-March 2020, as the COVID pandemic rapidly escalated, the company proactively chose to freeze all membership subscriptions in anticipation of the government mandated lockdown aimed at controlling the rapid spread of the virus. The Directors believed this was the right course of action to maintain brand credibility and customer loyalty. The lockdown had a wide effect on the UK economy as a whole, and a material impact on our business.

At the end of July 2020, health clubs were allowed to reopen, however under various social distancing restrictions, which reduced capacity at each club by approximately half. Despite the restrictions the business opened relatively successfully, having implemented strong measures around increased cleaning and social distancing. The businesses decision to promptly freeze membership subscriptions allowed it to retain the bulk of its membership base. The working from home directive resulted in a gradual build-up of the paying membership base during this period, as members unfroze their subscriptions, with more members returning each month. After a steady recovery in membership visits from August 2020, the UK government announced a second lockdown between 5 November 2020 and 2 December 2020, followed by a further lockdown on 20 December 2020, which remains in place.

This has adversely impacted revenue, which at this stage cannot be fully determined due to ongoing government restrictions to control the pandemic. However, we anticipate a strong recovery in the membership base once restrictions in working from home are relaxed. In addition, the business implemented a number of strong cost reduction measures and utilised available government support schemes such as business rates relief and furlough, to deliver positive trading EBITDA (before any non-trading items) for each full calendar month it was able to remain open, demonstrating its significant underlying resilience, and ability to recover quickly. In addition, the business has taken steps to minimise capital expenditure programmes, until it is able to reopen.

Whilst it is too early to fully assess the long-term impact of the virus, the Directors remain confident, based on a strong database of members and its experience following the end of the first lockdown, that consumer behaviour will return even stronger during 2021, aided significantly with the recent successful rollout of a nationwide vaccine programme. This confidence extends to the belief in the fundamental strength of the business model, and the substantial opportunities that exist for the future of the business and the health and fitness market as a whole.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, the director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Strategic report (continued)

Auditor

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year and since the year end.

Financial instruments

The directors' understanding of, and the Company's exposure to risk as a result of using financial instruments is set out in the strategic report.

Charitable donations

The Company made charitable donations of £19,298 during the year (2018: Nil).

On behalf of the Board

Samir Shah

Director

Date 30/3/21

Directors' responsibilities statement

The directors are responsible for preparing the 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 its profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 THE THIRD SPACE GROUP LIMITED

Opinion

We have audited the financial statements of The Third Space Group Limited for the year ended 31 December 2019, which comprise the statement of comprehensive income, balance sheet, statement of changes in equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial statements, which indicates the Company has received parental support from a parent undertaking, Third Space Holdings Limited. However, this support is dependent on Third Space Holdings Limited receiving a waiver for potential covenant breaches during the going concern assessment period.

As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE THIRD SPACE GROUP LIMITED (CONTINUED)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE THIRD SPACE GROUP LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Zishan Nurmohamed (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30/03/2021

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Turnover	4	5,858,996	5,061,115
Administrative expenses		(5,003,321)	(4,313,276)
Operating profit	5	855,675	747,839
Interest payable and expenses		-	(7,500)
Profit before taxation		855,675	740,339
Tax	8	(6,132)	(2,000)
Profit for the year		849,543	738,339
Other comprehensive income		-	-
Total comprehensive income		849,543	738,339

Results of the current and prior years were generated from continuing operations.

Balance Sheet

at 31 December 2019

	Notes	£	2019 £	£	2018 £
Fixed assets					
Intangible assets	9		95,425		19,850
Tangible assets	10		318,875		79,950
Investments	11		8,564,400		8,564,500
			8,978,700		8,664,300
Current assets					
Debtors: amounts falling due after more than one year	12	110,250		-	
Debtors: amounts falling due within more than one year	12	9,342,447		5,826,652	
		9,452,697		5,826,652	
Creditors: amounts falling due within one year	13	(8,414,308)		(5,329,538)	
Net current assets			1,038,389		497,114
Total assets less current liabilities			10,017,089		9,161,414
Deferred tax	8		(8,132)		(2,000)
Net assets			10,008,957		9,159,414
Capital and reserves					
Called up share capital	14		1		1
Profit and loss account			10,008,956		9,159,413
Shareholders' funds			10,008,957		9,159,414

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30/3/21

Samir Shah
Director

Statement of Changes in Equity

for the year ended 31 December 2019

	Called up share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total equity*
	£	*£*	*£*	*£*	*£*
At 1 January 2018	365,388	6,187,760	40,399	1,827,528	8,421,075
Capital restructure	(365,387)	(6,187,760)	(40,399)	6,593,546	-
Profit for the year	-	-	-	738,339	738,339
At 31 December 2018	**1**	**-**	**-**	**9,159,413**	**9,159,414**
Profit for the year	-	-	-	849,543	849,543
At 31 December 2019	**1**	**-**	**-**	**10,008,956**	**10,008,957**

Notes to the financial statements

at 31 December 2019

1. General information

The Third Space Group Limited is a private company limited by shares and incorporated in England and Wales, with registration number 02973240.

The address of its registered office is 16-19 Canada Square, London, E14 5ER.

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgment in applying the Group's accounting policies (see note 3).

Financial reporting standard 102 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirement of Section 3 Financial Statement Presentation paragraph 3.17 (d);
- the requirement of Section 4 Statement of Financial Position paragraph 4.12 (a) (iv);
- the requirement of Section 7 Cash Flows;
- the requirement of Section 11 Financial Instruments paragraphs 11.41(b), 11.41 (c), 11.41 (e), 11.41 (f), 11.42, 11.44, 11.45, 11.47, 11.48 (a)(iii), 11.48(a)(iv), 11.48 (b), and 11.48 (c);
- the requirement of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12,29 (a), 12.29 (b) and 12.29A;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Gordons96 Limited for the year ended 31 December 2019 and these financial statements may be obtained from Companies House.

The following principal accounting policies have been applied:

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

The Company is dependent on a parent, Third Space Holdings Limited, for support, further detail on parent undertakings is provided in Note 17 to the financial statements. Treasury and cash flow is managed on a group basis within Third Space Holdings Limited Group and the assets of the Company and its fellow subsidiaries are held as security over banking relationships held by Third Space Holdings Limited. The Directors therefore consider it is appropriate to perform their going concern assessment at group level in order to conclude whether the parent can provide sufficient support.

After the balance sheet date of these accounts, the business has been impacted by the COVID-19 pandemic, as described further in the subsequent events note. Understandably, this unprecedented trading uncertainty has impacted the Directors' forecasts for the short-term with a consequential impact on the Group's ability to meet its banking covenants. Certain covenants are currently forecast to be breached until March 2022, but there exist a wide range of possible outcomes depending on how quickly trade returns following the easing of lockdown restrictions. However, the key liquidity strength covenant test is never breached, and so the Company is forecast to always be in a position of having sufficient available funds to meets its ongoing commitments.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Going concern (continued)

If the banking covenants are actually breached, and the Group is unable to obtain a covenant waiver, the bank loan would be repayable on demand. In such an event, the Company would have to seek funding from alternative sources to repay the bank loan. Accordingly, a material uncertainty exists that may cast significant doubt upon the company's ability to continue as a going concern. However, the Directors have been in discussions with the Group's lenders to address these covenants and are confident that the lender will support the business over the medium term and beyond once greater clarity on trading again becomes evident.

The Directors' forecasts are based on expected working capital requirements and expected capital projects. In making these assessments the Directors have considered the impact of COVID-19 on Group cashflows and liquidity of the twelve months period from the approval of these financial statements. This assessment also takes in to account the measures available to the Group to preserve cash and reduce discretionary expenditure.

Notwithstanding the material uncertainty described above, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of these financial statements and for the foreseeable future thereafter. As such, the Directors are confident that it is appropriate to prepare these financial statements on a going concern basis.

These financial statements do not include the adjustments that would result if the Company, or the Group, were unable to continue as a going concern.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the rendering of services represents income from management charges and is recognised as services are provided.

Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Fixtures and fittings	–	3-10 years
Computer equipment	–	5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Intangible fixed assets

Intangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Amortisation is charged so as to allocate the cost of assets over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Computer software	–	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Investments

Investments in subsidiaries are measured at cost less any accumulated impairment.

Impairment

At each reporting date, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statement of comprehensive income.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Pensions

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the group in independently administered funds.

Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

3. Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Notes to the financial statements (continued)

at 31 December 2019

3. Judgements and key sources of estimation uncertainty (continued)

The key judgement as determined by the directors is:

Useful economic lives of non-current assets

The annual depreciation and amortisation charges for non-current assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The assessment of useful economic lives and residual values is determined to be a critical accounting judgement and is re-assessed annually. They are amended when necessary to reflect current estimates based on technological advancements, future investments, economic utilisation and the physical condition of the assets. The carrying value is re-assessed annually to consider whether any impairments to the carrying values have occurred. Intangible fixed assets are set-out in note 9 and tangible fixed assets are set-out in note 10.

Valuation of investments

Investments in subsidiaries are valued at cost and management have considered the need for impairment based on trading results of subsidiaries and their expected fair value. No impairment is deemed necessary by the directors based on the latest trading results of the subsidiaries. Further information on investments is set-out in note 11.

4. Turnover

An analysis of turnover by class of business is given below:

	2019	*2018*
	£	*£*
Management fees	5,858,996	5,061,115

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2019	*2018*
	£	*£*
Depreciation of tangible fixed assets	23,003	14,083
Amortisation of intangible fixed assets	15,348	-
Auditor's remuneration	107,000	94,400

During the year the company paid audit fees of £107,000 (2018: £94,400) on behalf of the Group of which it is a member. In addition, the company paid fees of £36,000 (2018: £34,800) to the auditor for non-audit services, principally comprising tax advisory and tax compliance.

EBIDTDA is used by management as an alternative performance measure and is defined as operating profit plus depreciation and amortisation.

Notes to the financial statements (continued)

at 31 December 2019

6. Staff costs

Staff costs were as follows:

	2019	2018
	£	£
Wages and salaries	2,508,375	2,237,058
Social security costs	259,888	222,156
Pension contributions	57,779	46,488
	2,826,042	2,505,702

The average monthly number of employees, excluding the directors, during the year was as follows:

	No.	No.
Administration	39	27
Management	4	4
	43	31

7. Directors' remuneration

The directors are also directors of fellow undertakings in the enlarged group of which the company is a member. It is not possible to identify the proportion of these emoluments that relate to services to this company.

	2019	2018
	£	£
Directors' emoluments	604,358	633,050
Company contributions to defined contribution pension schemes	15,841	18,681
	620,199	651,731

During the year retirement benefits were accruing to 3 directors (2018: 3) in respect of defined contributions.

The highest paid director received remuneration of £250,000 (2018: £236,200).

No pension contributions were made in respect of the highest paid director (2018: £Nil).

Notes to the financial statements (continued)

at 31 December 2019

8. Tax

(a) Tax on profit on ordinary activities

The tax (charge is made up as follows:

	2019 £	2018 £
Corporation tax:		
Current tax on profit for the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	7,890	1,000
Adjustments in respect of previous periods	(927)	1,000
Rate change adjustments	(831)	-
Total deferred tax	6,132	2,000
Taxation on profit on ordinary activities	6,132	2,000

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	855,675	740,339
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	162,578	140,664
Effects of:		
Adjustments to tax charge in respect of prior periods	(927)	1,000
Expenses not deductible	11,961	4,315
Rate change adjustments	(831)	(2)
Movement on unprovided deferred tax	-	(25,494)
Group relief	(166,649)	(118,483)
Total tax charge for the year	6,132	2,000

Notes to the financial statements (continued)

at 31 December 2019

8. Tax (continued)

(c) Deferred tax

	2019	2018
	£	£
At 1 January	2,000	-
Charged to profit or loss	7,059	1,000
Prior year adjustment	(927)	1,000
At 31 December	8,132	2,000

The provision for deferred taxation is made up as follows:

	2019	2018
	£	£
Fixed asset timing differences	8,132	2,000

(d) Factors that may affect future tax charges

The Finance Act 2016, which was enacted on 15 September 2016 included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2018. A further reduction in the UK corporation tax rate to 17% from 1 April 2020 was also included in the Finance Act 2018 and consequently deferred tax has been recognised at a rate of 17%.

9. Intangible fixed assets

	Website & apps
	£
Cost:	
At 1 January 2019	19,850
Additions	90,923
At 31 December 2019	**110,773**
Depreciation:	
At 1 January 2019	-
Charge for the year	15,348
At 31 December 2019	**15,348**
Net book value:	
At 31 December 2019	**95,425**
At 1 January 2019	19,850

Notes to the financial statements (continued)

at 31 December 2019

10. Tangible fixed assets

	Fixtures and fittings	*Computer equipment*	*Total*
	£	*£*	*£*
Cost:			
At 1 January 2019	4,800	95,317	100,117
Additions	120,770	141,158	261,928
At 31 December 2019	**125,570**	**236,475**	**362,045**
Depreciation:			
At 1 January 2019	560	19,607	20,167
Charge for the year	2,274	20,729	23,003
At 31 December 2019	**2,834**	**40,336**	**43,170**
Net book value:			
At 31 December 2019	**122,736**	**196,139**	**318,875**
At 1 January 2019	4,240	75,710	79,950

11. Fixed asset investments

	Investments in subsidiary companies
	£
Cost or valuation:	
At 1 January 2019	18,694,480
Disposals	(100)
At 31 December 2019	**18,694,380**
Impairment:	
At 1 January 2019	10,129,980
Additions	-
At 31 December 2019	**10,129,980**
Net book value:	
At 31 December 2019	**8,564,400**
At 1 January 2019	8,564,500

Notes to the financial statements (continued)

at 31 December 2019

11. Fixed asset investments (continued)

The following were subsidiary undertakings of the Company:

Name	**Principal activity**
TTS Properties Limited	Letting of property
TTS Soho Limited	Dormant
Quantum Leap Health and Fitness Limited	Health and fitness centre operator

The Company owns 100% of the issues share capital of the above subsidiaries, which are all registered in England and Wales.

12. Debtors

	2019	*2018*
	£	*£*
Due after more than one year		
Other debtors	110,250	-
	110,250	-
Due within one year		
Trade debtors	16,373	-
Amounts owed by group undertakings	9,028,228	5,623,285
Other debtors	231,600	159,005
Prepayments and accrued income	66,246	44,362
	9,342,447	5,826,652

13. Creditors: amounts falling due within one year

	2019	*2018*
	£	*£*
Trade creditors	214,572	48,069
Amounts owed to group undertakings	7,937,085	5,090,918
Accruals and deferred income	262,651	190,551
	8,414,308	5,329,538

14. Issued share capital

	2019	*2018*
Allotted, called up and fully paid	*£*	*£*
1 (2018: 1) Ordinary shares of £0.03each	1	1
	1	1

Notes to the financial statements (continued)

at 31 December 2019

15. Other financial commitments

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019	*2018*
	£	*£*
Not later than 1 year	55,831	-
Later than 1 year and not later than 5 years	1,383,292	-
Later than 5 years	1,684,984	
	3,124,107	-

The assets of the Company are held as security over banking relationships in respect of the Group of which the company is a member.

16. Related party transactions

In accordance with the exemption under Section 33 of Financial Reporting Standard 102, the company does not disclose transactions with other wholly-owned companies within the Encore Capital VIII group.

17. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Third Space Holdings Limited.

The parent undertaking of the smallest group for which consolidated financial statements are drawn up that include the results of the Company is Third Space Holdings Limited, incorporated in England and Wales. The parent undertaking of the largest group for which consolidated financial statements are drawn up that include the results of the Company is Gordons96 Limited, incorporated in England and Wales. Copies of these group financial statements are available from Companies House.

The directors consider the ultimate parent and controlling party of the Company to be Encore Capital VIII Limited.

18. Subsequent events

COVID19

Following a successful 2019, the financial year 2020 continued with a strong start, achieving record membership levels and the launch of a new 48,000 square foot landmark club in Islington. The business was on track to deliver excellent turnover and EBITDA growth – in the first two months of 2020, total revenue of the company's trading subsidiary was up 6%.

From mid-March 2020, as the COVID pandemic rapidly escalated, the business proactively chose to freeze all membership subscriptions in anticipation of the government mandated lockdown aimed at controlling the rapid spread of the virus. The Directors believed this was the right course of action to maintain brand credibility and customer loyalty. The lockdown had a wide effect on the UK economy as a whole, and a material impact on our business.

Notes to the financial statements (continued)

at 31 December 2019

18. *Subsequent events (continued)*

At the end of July 2020, health clubs were allowed to reopen, however under various social distancing restrictions, which reduced capacity at each club by approximately half. Despite the restrictions the business opened relatively successfully, having implemented strong measures around increased cleaning and social distancing. The businesses decision to promptly freeze membership subscriptions allowed it to retain the bulk of its membership base. The working from home directive resulted in a gradual build-up of the paying membership base during this period, as members unfroze their subscriptions, with more members returning each month. After a steady recovery in membership visits from August 2020, the UK government announced a second lockdown between 5 November 2020 and 2 December 2020, followed by a further lockdown on 20 December 2020, which remains in place.

This has adversely impacted revenue, which at this stage cannot be fully determined due to ongoing government restrictions to control the pandemic. However, we anticipate a strong recovery in the membership base once restrictions in working from home are relaxed. In addition, the business implemented a number of strong cost reduction measures and utilised available government support schemes such as business rates relief and furlough, to deliver positive trading EBITDA (before any non-trading items) for each full calendar month it was able to remain open, demonstrating its significant underlying resilience, and ability to recover quickly. In addition, the business has taken steps to minimise capital expenditure programmes, until it is able to reopen.

Whilst it is too early to fully assess the long-term impact of the virus, the Directors remain confident, based on a strong database of members and its experience following the end of the first lockdown, that consumer behaviour will return even stronger during 2021, aided significantly with the recent successful rollout of a nationwide vaccine programme. This confidence extends to the belief in the fundamental strength of the business model, and the substantial opportunities that exist for the future of the business and the health and fitness market as a whole.