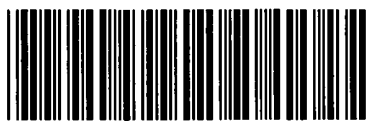


Company Registration No. 05452198

Moray Finance Limited (formerly Fitness First Finance Limited)
Annual Report and Financial Statements for the year ended
31 October 2016

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Moray Finance Limited

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Moray Finance Limited

OFFICERS AND PROFESSIONAL ADVISORS

For the year ended 31 October 2016

DIRECTORS

J Bickle
N Khatoun
O Peleg
V Srinivasan
A Cosslett (resigned on 1 December 2015)

SECRETARY

S Cadd

REGISTERED OFFICE

58 Fleets Lane
Poole
Dorset
BH15 3BT

BANKERS

HSBC Bank PLC
165 High St
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SO14 2NZ

SOLICITORS

Kirkland & Ellis
30 St Mary Axe
London
EC3A 8AF

INDEPENDENT AUDITOR

Ernst & Young LLP
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

STRATEGIC REPORT

For the year ended 31 October 2016

Principal Activities

On 30 September 2016, Fitness First Finance Limited Changed its name to Moray Finance Limited. During the year the principal activity of Moray Finance Limited ("the Group") was that of a global health and fitness provider. The Group operated or franchised clubs in 16 countries during the year. The Fitness First brand is internationally recognised and is regarded as one of the leading health and fitness club brands in all of our principal regions.

We offer a full-service fitness club proposition to the upper mid-market of the fitness industry, including on-floor services, group exercise programs and personal training. We seek to provide our members with the best fitness experience and service in convenient locations while offering value to our members.

In addition to offering high quality equipment, personal training services and a broad array of group exercise programs, we strive to actively engage with our members to promote a motivating, high-energy, fun atmosphere and outstanding service in our clubs to help our members achieve their health and fitness goals.

As at 31 October 2016, following the sale of the UK business, Active Media Group Pty Ltd and its franchise operations, the Group operated 245 clubs with around 693,000 members, in three principal regions – Asia, Australia, and Germany. As Australia was sold post year end, it is treated as a disposal group held for sale and like the UK its performance is excluded from continuing operations. Excluding Australia, the ongoing Group had 180 clubs and 492,000 members. An analysis of the results and net assets of these operating segments is set out in the segmental analysis in note 4 to the accounts.

Business Environment

The global health and fitness club market has grown considerably in recent years, both in developed countries, as well as countries with emerging economies, and we believe there is still significant growth potential. In our view, the key drivers of this growth have been increasing affluence, increasing urbanisation and increasing consumer awareness of the need for a healthy lifestyle. We believe that these drivers will lead to rising penetration of fitness club membership. Fitness has become an integral part of consumers' daily lives and its importance is recognised by governments worldwide through health policies and promotional campaigns. During the most recent economic downturn, the global health and fitness club industry continued to maintain steady growth as fitness remained a priority for consumers despite other pressures on their incomes.

The economic downturn has had a significant impact on the fitness industry, with an influx of budget operators segmenting the market and intensifying competition. However, we believe that following the capital restructure in 2012 and club and brand investments since 2013, the Group is in a strong position to strengthen the brand further and capitalise on the positive macro trends in the health and fitness club market going forward. This could be seen in Australia where we saw an increase in closing and LFL membership, which was also reflected in its EBITDA performance. The UK business also saw strong adjusted EBITDA growth prior to its sale.

Business Strategy

During the year the Group began the process of returning capital to shareholders. Following the success of our turnaround plans, the Group was able to recognise the value created in the UK with the sale of its UK business to Dave Whelan Sports Limited for total sale proceeds of £70.6m, the consideration consisting of £44.6m cash and a vendor loan note of £26.0m.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2016

Business Strategy (Continued)

On 13 December 2016, we sold our Australian business to Fitness and Lifestyle Group for A\$110.6m (£64.7m) and a 35.5% stake of the newly formed Group. This transaction combined the Fitness First Australia gyms with those of GoodLife and Jetts to form a Group with 650,000 members and 220 clubs. With the cash proceeds from both the UK and Australian exits, we repaid our bank facility in December 2016 and with non-cash consideration repaid part of the shareholder loan from FF Luxembourg in February 2017. The Group's focus in 2017 is to look for further opportunities to return capital to our shareholders and, in order to attract such opportunities, increase profitability of the business units by enhancing and expanding our club network, attracting new members and increasing membership retention. To this end there are five key initiatives for the Group – a monetarisation initiative and four key operational ones to drive business performance to support the monetarisation and help achieve the best possible return for our shareholders.

Monetarisation

On 30 November 2015, the Group sold its franchise operations to the current franchisee for £17.5m. £16.0m was received at the date of the sale with £1.5m received by the end of May 2016 following satisfactory completion by Fitness First of agreed tasks. On 2 July 2016, the Group sold its Australian marketing business Active Media Group Pty Ltd (AMG) to Val Morgan Outdoor for A\$17.5m (£10.1m). On 30 September 2016, the Group sold its UK business to Dave Whelan Sports Limited for £70.6m. As part of the funding for the transaction the Group issued a Vendor Loan Note to Dave Whelan Sports Limited of £26.0m payable within five years with an initial coupon rate of 5%. This note was transferred to Fitness First Luxembourg SCA on 28 February 2017 in part settlement of the shareholder loan. As such we have assumed the face value of the loan note to be its fair value and have ascribed a fair value of £70.6m to the proceeds from the sale. On 13 December 2016, we sold our Australian business to Fitness and Lifestyle Group in exchange for A\$110.6m (£64.7m) and a 35.5% stake in the new entity, the fair value of which is yet to be determined. The nominal value of A\$115.0m (£68.0m) has currently been applied in calculating repayment of the Promissory note when the investment in the new entity was passed up to Fitness First Luxembourg SCA.

The cash proceeds from the UK and Australian sales enabled us to repay our Banking facility in December 2016. This means that future disposal proceeds after ongoing funding of the reduced business, will be available to repay the shareholder loan and return funds to our shareholder.

The exit of the Group will be on a region by region basis. The timing of disposals will depend on the business performance of the remaining regions, and the opportunities that are available to us. No time limits have been set for any disposals and our owners continue to be very supportive towards the business. The exit process could result in the straight sale of the business, as in the case of our franchise and UK businesses, or by taking some of the consideration as shareholdings in larger organisations that can drive further growth and efficiencies to deliver higher returns in the future, as per the Australian transaction.

On 11 February 2017, the Group signed a shareholders contribution agreement to combine the majority of our Asian business with a third party in exchange for a cash contribution and a majority stake in the newly formed entity.

To help prepare the regions for exit and continue the business turnaround, there are four principal strategies supporting this one:

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2016

Business Strategy (continued)

Portfolio Strategy

We are focused on strategically expanding our club network in and around major cities in our key regions against rigorous criteria, which are based on the characteristics we have identified for successful clubs. This approach has enabled us to strengthen our position in key cities, creating ‘fortresses’ where we are able to use our city network to offer more fitness products and services to our members across complementary clubs than a competitor can offer from a single site.

Our strong presence in these cities also increases the awareness of our brand for potential members, helping us to become the first choice if they decide to join a fitness club. We have also developed strong relationships with key developers in certain cities. These factors combined make it hard for our competitors to establish a challenging presence in these cities.

Based on the above, we have and will continue to follow a disciplined expansion strategy by only opening clubs where we find opportunities that meet our selection criteria and where expansion would be beneficial to our total business and in line with our business strategies. During the year we opened eight new clubs, with three new openings in Hong Kong, which we identified as a country of strong potential growth and as a possible gateway into expansion into China. There were further club openings in Germany and in India. We have also committed to a further three sites in India and two in Germany, with a club in Cologne opening in March 2017 and the others due to open in the last quarter of the 2017 financial year.

As well as strengthening our portfolio with the opening of new clubs in key selected locations, we will continue to review and rationalise our portfolio. This involves reviewing our poorer performing (‘tail’) clubs to identify operational solutions to improve their performance. We have improved performance by looking at such things as the cost structure of the club, the suitability of its product and service offerings to its local market and pricing options to ensure the club is competitive against the local competition. We will look to exit clubs in sub optimal locations, either by exercising lease breaks as they arise or by a sales process. Prior to the sale of the UK business, we identified seven such clubs within the UK portfolio and exited these clubs to leave a stronger performing estate to be taken through the sales process. This approach led us to exit a further two clubs in Australia and three in Germany.

New Digital Products

An important part of our strategy is to develop our digital presence by creating digital products using our fitness knowledge and research into consumer attitudes. This will help us personalise a member’s experience and enable us to use our leading brand to grow our presence in this area and reach new members. CustomFit, our mobile app developed by Connected Fitness Labs Ltd, is an integrated training tool which allows users to create personalised workouts, set goals, access a library of exercises and video demonstrations and to track progress, across all devices. This was successfully launched into our Asian and German markets during the year and was available to both members and non-members. In May 2016, Connected Fitness Labs Ltd partnered with Wexer Virtual (‘Wexer’). By combining CustomFit with Wexer’s platform and exercise content, we have created a digital fitness solution that can be white labelled by gym chains anywhere in the world. This solution, that will be available with clubs’ own brands, will develop personalised workouts, set goals and provide access to a library of hundreds of exercises, video demonstrations and group exercise classes. It will track members’ progress and provide feedback on their fitness.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2016

Business Strategy (continued)

Systems and Insight Initiatives

We have undertaken studies and research into our membership base to understand attitudes and behaviours to enable us to segment our members into certain profiles. From this we have started to understand the different requirements of our members and the factors that make them visit our clubs and remain as members. This has enabled us to be more focussed in targeting non-members for whom our product is attractive, and develop bespoke tools and techniques to retain existing members. We have looked at other hospitality/leisure companies to see how they interact with their customers to improve their experience and the service offering. We believe that we are at the forefront of incorporating this into the fitness industry and it is helping us to improve our members' experience by giving them what they want and value and as a result improve the profitability of our membership base.

We are developing our website to enable new members to more easily join online and for all members to manage their membership on line. As part of the improvement to our technology platform we are also implementing a new sales system and improving our CRM capability. This will help us to attract new members and then ensure our offerings are geared to their expectations to help us retain them as members for longer.

In November 2015 we entered into a partnership in Germany with My Fitness Club (MFC), a gym aggregator to develop new product offerings and share future profits. It also enables us to gain a better understanding of the latest trends and developments within the German fitness market. By allowing all our Lifestyle/ Women and Platinum clubs to participate in the aggregator model, we were given a 20% stake in MFC with a nominal value of €7,000 (£6,000). Fitness First lent MFC €400,000 (£281,000) to develop and market new products in the form of a convertible loan, repayable on 31 October 2017 with a coupon rate of 5%. This loan was converted into a further 3% stake in MFC during the year. This partnership will enable us to reach more potential members and understand the flexibility requirements of potential users. In Australia we successfully piloted a pay as you go system to improve the flexibility of our membership offerings and will assess its potential in our other markets.

Role of Group and Regions and Prioritisation of Initiatives

We have revisited the relationship between the Group and Regional teams. We are moving more to a holding company model at Group with more responsibility being passed to the regions. Consequently we have rationalised the Group head office costs and reduced the Group headcount as we complete or stop central initiatives and pass responsibility to the regions. We expect to continue this work in 2017, as we prepare regions for eventual exit and continue to wind down the Head Office. As part of the review we have agreed specific initiatives for each individual region, which will address areas of particular focus, including increasing membership growth, reducing the cost of member acquisition and the cost of serving our members. This has included looking at how we can simplify and automate our processes and challenging how our club headcount can better serve our members.

Principal Risks and Uncertainties

The business management and execution of the Group's strategy are subject to a number of potential risks and uncertainties. These could have a material impact on the Group's operating performance and could cause future financial results to differ materially from expected and historical results. The most significant risk to the business is membership decline. This could be driven by failure to successfully implement business strategies, the inability to attract and retain the right people to deliver the service our members expect, competition, and macro-economic factors including consumer confidence.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2016

Principal Risks and Uncertainties (continued)

The Directors have implemented systems to identify and assess these risks and to ensure that reasonable mitigation and action plans are in place. In particular, the following activities are examples of ways in which the directors have attempted to mitigate this key risk to the business:

- Investment in the brand to differentiate Fitness First from other operators;
- New training and development programme to enable staff to provide a standardised approach enhancing member motivation and retention
- New digital innovations are being developed, with the aim to differentiate and secure the brand's significance to target markets;
- Maintenance of competitiveness through appropriate price architecture;
- Piloting new concepts to stay at the forefront of industry developments and provide innovative new products for our members.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks arising from the financial assets and liabilities of the Group are foreign exchange risk, liquidity risk and credit risk. Details of financial instruments and how management mitigate these risks are provided in note 27.

Future viability is also considered a principal risk because the value of shareholder loans outstanding at 31 October 2016 exceeds the current estimate of net realisable value of the Group. As a result, there is a possibility that the Group will be unable to settle in full its liabilities in future after all investments have been realised. The Directors are exploring their options to resolve this potential issue.

Business review and performance for the year

The key figures below represent the ongoing Group at 31 October 2016, and exclude the results of the UK and Australia, which are included within discontinued operations in these financial statements. 2016 was a year of stabilisation for the Group following the transformation work completed in the previous years. The UK and Australian businesses had successful years as the turnaround was completed in these regions, culminating in exits for both.

	2016	2015
Revenue	£281.9m	£257.3m
Revenue Growth	9.6%	-6.1%
Operating loss	£(35.4)m	£(11.8)m
Adjusted EBITDA ¹	£32.2m	£32.8m
Adjusted operating (loss) profit ¹	£(1.4)m	£3.7m
No. of clubs	180	179
Membership	0.492m	0.481m

¹ The reconciliation of adjusted EBITDA and adjusted operating profit is disclosed in note 4

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2016

Business review and performance for the year (continued)

As set out in the consolidated statement of comprehensive income, the Group reported a 9.6% increase in revenue (2015: 6.1% reduction), resulting in total revenue of £281.9m (2015: £257.3m). Adjusted EBITDA at group level is £32.2m in 2016 (2015: £32.8m). Adjusted operating loss was £1.4m (as per note 4), a decrease of £5.1m from 2015. This is mainly due to an increase in the depreciation and amortisation charge of £4.5m, reflecting a full year amortisation charge on the CustomFit app and increased depreciation charge following the club investments last year. The other key drivers of the increase in operating loss were increases in other one-off operating costs, largely relating to the costs of the Management Incentive Plans (£13.0m), other exit related costs (£10.5m), partially offset by reductions in restructuring and one off costs of £3.3m and VAT recovery of £2.0m.

The loss for the year of £17.1m (2015: £57.3m) is made up of the operating loss of £35.4m (2015: £11.8m) explained above plus one off income of £17.1m (2015: £nil) from the sale of the Franchise operations disclosed in note 4 and profit from discontinued operations of £36.8m (2015: £8.7m loss) disclosed in note 10, less net finance costs of £31.5m (2015: £31.7m) and tax of £4.0m (2015: £5.2m).

Employees

Our staff are fundamental to delivering our promise to members and we have a set of values that define how we behave. We know and live by our values throughout the company, and these values form part of our employee recruitment, induction and training, and ongoing performance appraisal and rewards systems.

During the period under review, the Group employed circa 6,900 employees. We recognise that our staff are critical to achieving our strategy and we understand how important our people are to our long term success. We consistently seek to recruit and retain the best employees in our local markets in order to provide the service that is the foundation of our success. We have a training and certification program for our staff and believe that this program promotes staff retention, motivation and productivity, as well as an improved member experience.

Information regarding the Group is circulated via staff newsletters, visits by management and email. Regular meetings are held with employees to discuss operational and financial performance of the business, as well as the holding of forums and conferences to bring together wider teams and functional specialists, for example in fitness, marketing or property.

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. Where a person becomes disabled while in the Group's employment, a suitable alternative position will be sought for that person.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 October 2016

Environment

An important part of our social responsibility is our commitment to being environmentally friendly within the business.

As a result of the Group providing a service driven product our impact on the environment is considered to be low. Nonetheless the Group aims to minimise its environmental impact, and to comply with all applicable environmental legislation, to prevent pollution and to minimise environmental damage occurring as a result of its activities.

A key focus for the Group in operating health and fitness clubs is in minimising energy consumption. This has an environmental benefit as well as minimising costs for the business. This is a focus in all the regions in which we operate and where it is practically possible to do so we monitor and manage levels of energy consumption in our clubs.

Health and Safety

The Group recognises and accepts its responsibilities for the health and safety of its employees, members and members of the public. The Group aims to ensure that the tasks it carries out achieve and maintain the highest standards of health and safety for all employees and persons liable to be affected by them or their actions.

The Group, through management at all levels, has a responsibility to ensure so far as is reasonably practicable, the health, safety and prevention of injuries to all employees whilst at work and to visitors to the premises. Employees are reminded that they have a legal responsibility to take reasonable care for the health and safety of themselves and others by adopting the safe working practices given to them via written or verbal communication, such that they do not put themselves, fellow employees or members at risk.

With a view to promoting good practices covering health and safety at work, Fitness First requires the co-operation and encourages the involvement of all members of the organisation.

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

A handwritten signature in black ink, appearing to read 'O Peleg', with a long horizontal line extending to the right.

O Peleg
Director
5 May 2017

BOARD OF DIRECTORS

For the year ended 31 October 2016

Directors

The following members of the Board served throughout the year to the date of signing of this report:

Oren Peleg is our Chief Executive Officer and joined the Company in July 2015. Prior to this he was Managing Director of Oaktree Capital Management, where he was responsible for the investment in Fitness First. Previously, he spent eight years in the Principal Finance Group of Nomura Europe Holdings plc, which subsequently became Terra Firma Capital Partners, where his areas of focus were strategy and operations and the post-acquisition management of portfolio companies. From 1991 to 1998, Mr Peleg was employed in Italy and the United Kingdom by McKinsey & Company, where he was elected to Partner in 1998. Prior to McKinsey, he spent three years as a Corporate Analyst at Citibank/Citicorp in London and Milan. Mr Peleg holds a BSc degree in Economics from the University of London.

Justin Bickle joined Oaktree Capital Management in 2005 from US law firm Cadwalader, Wickersham & Taft LLP where he was a Partner in the financial restructuring group. Before that he worked in two UK law firms, specialising in insolvency matters. Mr Bickle graduated from the University of Exeter with an LLB (Hons) degree in Law in 1992 and qualified as a solicitor in England and Wales in 1995.

Nael Khatoun joined Oaktree Capital Management in 2005 after spending three years as a Transaction Executive at Terra Firma Capital Partners Ltd. Before then, Mr Khatoun spent three years in the Investment Banking Division of Goldman Sachs International. Mr Khatoun received a BA degree with honours in Philosophy, Politics and Economics from Oxford University.

Vijay Srinivasan is the Global Head of Research and a member of Marathon's Executive Committee. After having joined Marathon in 2007, Mr. Srinivasan spent several years in the firm's London office where he worked on the European opportunity set. Prior to joining Marathon, Mr. Srinivasan was a senior credit analyst at Four Corners Capital Management where he functioned as an investment analyst covering the U.S. leveraged loan and high yield markets. Before then Mr. Srinivasan's worked for Houlihan Lokey in their Financial Restructuring Group and at JPMorgan in their Investment Banking Group. Mr. Srinivasan received his B.S.C. from the University of Southern California, his MBA from the Anderson School at UCLA and is a CFA charterholder.

DIRECTORS' REPORT

For the year ended 31 October 2016

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 October 2016. No dividends were proposed or declared (2015: £nil).

Going Concern

At year end the Group held cash of £64.3m with external bank debt of £49.0m and shareholder balances payable owing to Fitness First Luxembourg SCA of £788.5m.

Following the successful sale of the Australian business in FY17 (December 2016), the Group has applied proceeds to fully repay its bank debt and has cash of £65.6m at 31 January 2017. The group also restructured its shareholder loan balances as part of this disposal process.

As at 31 January 2017, all remaining debt is with Fitness First Luxembourg SCA, a related party on which interest is rolled up rather than being cash settled. The debt comprised shareholder loans of £500.9m which did not mature until February 2020 and promissory notes of £205.2m, which did not have a fixed maturity. Subsequent to 31 January 2017, these promissory note agreements have been amended to mature in February 2020. As a result, there is no requirement to settle any debt within the next 12 months.

Cash movement for the remaining 9 months of FY17 was budgeted to be +£0.9m leaving an expected cash position at 31 October 2017 of £66.5m.

Two further transactions were entered into affecting the positions above. Surplus cash of £27.8m was returned to Fitness First Luxembourg SCA in part repayment of the shareholder loan. In addition the Vendor Loan Note (VLN) plus accrued interest together totalling £26.2m was passed up to Fitness First Luxembourg SCA in part repayment of the shareholder loan. The result of these transactions is that the shareholder loans are reduced by £54.0m and closing cash balance at 31 October 2017 is forecast to be £38.7m excluding the impact of proceeds from any future monetisation events.

The Group continues its strategy to realise shareholder value via monetisation. If successful, these transactions would generate significant unbudgeted cash inflows. In the meantime these business continue to trade as normal and are cash generative - the macroeconomics of the gym industry remain strong and the gym model is intrinsically cash generative due to the recurring upfront monthly receipts from members under contract, but it does rely on significant capital investment in order to protect membership revenues.

Cash flows have been projected out until October 2018 and are expected to remain positive for the remaining businesses.

Refer to the Strategic Report for additional disclosures relating to the longer term viability of the Group and Company.

After making enquiries, and in consideration of the foregoing, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' Indemnity

The Company has granted indemnity to its directors against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the Directors' report.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 October 2016

Ownership

The equity of Moray Finance Limited is owned 100% by Fitness First Luxembourg SCA. Fitness First Luxembourg SCA's equity is owned as follows:

	Ordinary Shares %
Funds advised by Oaktree Capital Management	60
Funds advised by Marathon Asset Management	12
Other shareholders	28

Oaktree Capital Management acquired its shareholding through a secondary buy-out in September 2012. Oaktree Capital Management is a leading global alternative investment management firm with particular expertise in credit strategies. The firm operates as an integrated team through its offices across the globe.

Social and community issues

We aim to participate in and support the local communities in which we operate. Throughout the Group our employees at our clubs are engaged with the community on a day to day basis and we partner with many events at both a national and regional level as well as fund raising and sponsorship for local charities, time donated to support local organisations, and the support of local and regional health and fitness initiatives.

The directors believe that fitness is a growing industry and that people and governments across the world are recognising the need for living a healthy lifestyle and the benefit that improved levels of fitness can bring. Increased levels of obesity and an ageing world population highlights this more than ever.

Contractual arrangements

Revenue is predominantly generated from our global membership base. Each individual has their own membership agreement setting out agreed terms. In terms of costs, we enter into key supplier contracts at both a local and international level. A global authorisation process is in place to ensure all new/updated contracts are appropriately reviewed, challenged and signed-off prior to commitment. In both areas of membership agreements and supplier contracts the business seeks to ensure clarity and a mutually rewarding relationship.

Subsequent Events

On 13 December 2016, the Group fully disposed of Asia Pacific Group Limited and its trading subsidiary Fitness First Australia Pty Limited, representing the remainder of its Australian operating segment. Control of the Australian business passed to the acquirer Fitness and Lifestyle Group in exchange for A\$110.6m (£64.7m) plus a 35.5% share in the newly created Australasian group combining Fitness First's Australian operations with other brands Goodlife Health Clubs and Jetts Fitness. The investment in the newly created group was immediately passed to Fitness First Luxembourg SCA in part repayment of its on demand promissory note. The nominal value of A\$115m (£68.0m) has been applied in calculating repayment as the fair value exercise required has not been completed. The cash proceeds were utilised to fully repay the Group's term loan facility ahead of its contractual maturity.

On 10 February 2017 the Group passed surplus cash of £27.8m to Fitness First Luxembourg SCA in part settlement of its shareholder loan.

On 11 February 2017, the Group signed a shareholders contribution agreement to combine the majority of our Asian business with a third party in exchange for a cash contribution and a majority stake in the newly formed entity.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 October 2016

Subsequent Events (continued)

On 28 February 2017, the Vendor Loan Note of £26.0m issued as part of the UK sales process plus accrued interest of £0.2m was transferred to Fitness First Luxembourg SCA in part settlement of the shareholder loan.

In April 2017, agreements for promissory notes of £205.2m due to Fitness First Luxembourg SCA, which did not initially have a fixed maturity date, were amended to mature in February 2020.

Financial instruments

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks arising from the financial assets and liabilities of the Group are foreign exchange risk, liquidity risk, interest risk and credit risk.

Details of financial instruments and how management mitigate these risks are provided in note 26.

Other disclosures

The following items are disclosed in the Strategic Report:

- Future developments in the business of the group (Business Strategy section)
- Information on employee policies

Information on policies related to financial instruments is disclosed in note 27 to the Group accounts.

Auditor

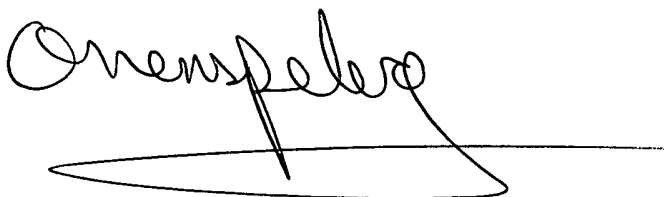
In the case of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Ernst & Young LLP have expressed their willingness to continue in office.

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

A handwritten signature in black ink, appearing to read 'O Peleg', is written over a horizontal line. Below the signature is a large, empty oval shape, likely a placeholder for a stamp or seal.

O Peleg
Director
5 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 October 2016

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 the Group and of the profit and loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group's financial position and financial performance; and
- state whether the Company and Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, 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 and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORAY FINANCE LIMITED

For the year ended 31 October 2016

We have audited the financial statements of Moray Finance Limited (formerly Fitness First Finance Limited) for the year ended 31 October 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related Consolidated notes 1 to 33 and Company notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 set out on page 14, 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 group's and the parent 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. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 October 2016 and of the group's loss for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORAY FINANCE LIMITED (CONTINUED)

For the year ended 31 October 2016

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the parent company 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.

Ernst & Young LLP

Geraint Davies (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton, United Kingdom

12 May 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2016

	Note	2016 £'000	2015 £'000
Revenue	4,5	281,937	257,298
Operating costs	4,6	(317,345)	(269,085)
Operating loss	4	<u>(35,408)</u>	<u>(11,787)</u>
Other one-off income	4	17,072	-
Finance income	8	9,907	5,256
Finance costs	8	(41,377)	(36,926)
Share of loss from associate	13	(80)	-
Loss before tax		<u>(49,886)</u>	<u>(43,457)</u>
Tax charge	9	(4,047)	(5,193)
Loss for the year from continuing operations		<u>(53,933)</u>	<u>(48,650)</u>
Profit / (loss) from discontinued operations	10	36,799	(8,671)
Loss for the year attributable to the owners of the parent		<u>(17,134)</u>	<u>(57,321)</u>
Other comprehensive (loss) / income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences ¹		(74,005)	16,868
Release of translation reserve on disposal of business		871	-
Other comprehensive (loss) / income for the year, net of tax		<u>(73,134)</u>	<u>16,868</u>
Total comprehensive loss for the year attributable to the owners of the parent		<u>(90,268)</u>	<u>(40,453)</u>

¹ Foreign currency translation differences arise from the translation of the financial statements of foreign subsidiaries and foreign exchange on intercompany loans treated as quasi equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2016

		2016	2015
	Note	£'000	£'000
Non-current assets			
Intangible assets	11	137,788	114,598
Property, plant and equipment	12	150,968	222,436
Investment in associate	13	280	-
Trade and other receivables	16	10,442	9,470
Deferred tax asset	21	3,114	1,568
		<u>302,592</u>	<u>348,072</u>
Current assets			
Inventories	15	3,761	3,806
Trade and other receivables	16	46,778	24,346
Current tax assets		76	120
Cash and cash equivalents	17	55,300	47,447
Assets classified as held for sale	10	61,537	654
		<u>167,452</u>	<u>76,373</u>
Total Assets		<u>470,044</u>	<u>424,445</u>
Current liabilities			
Trade and other payables	18	75,030	85,874
Current tax liabilities		2,136	2,072
Borrowings and other financial instruments	19	164,649	109,266
Provisions	22	11,676	3,548
Liabilities classified as held for sale	10	176,324	-
		<u>429,815</u>	<u>200,760</u>
Non-current liabilities			
Trade and other payables	18	32,827	52,509
Borrowings and other financial liabilities	19	550,993	626,264
Deferred tax liability	21	25	22
Provisions	22	23,649	22,229
		<u>607,494</u>	<u>701,024</u>
Total liabilities		<u>1,037,309</u>	<u>901,784</u>
Net liabilities		<u>(567,265)</u>	<u>(477,339)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 October 2016

		2016 £'000	2015 £'000
	Note		
Equity			
Share capital	23	3,854	3,854
Share premium		5,934	5,934
Translation reserve		7,945	79,099
Accumulated deficit		<u>(584,998)</u>	<u>(566,226)</u>
Total Deficit		<u>(567,265)</u>	<u>(477,339)</u>

The consolidated financial statements for the Group were approved by the Board of Directors and authorised for issue on 5 May 2017.

A handwritten signature in black ink, appearing to read 'O Peleg', is written over a horizontal line.

O Peleg
Director

Registered number: 05452198

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2016

	Share capital £'000	Share Premium £'000	Translation reserve £'000	Accumulated deficit £'000	Total £'000
At 31 October 2014	<u>3,854</u>	<u>5,934</u>	<u>62,231</u>	<u>(508,905)</u>	<u>(436,886)</u>
Loss for the year	-	-	-	(57,321)	(57,321)
Other comprehensive income	-	-	16,868	-	16,868
Total comprehensive income / (loss)	-	-	16,868	(57,321)	(40,453)
At 31 October 2015	<u>3,854</u>	<u>5,934</u>	<u>79,099</u>	<u>(566,226)</u>	<u>(477,339)</u>
Loss for the year	-	-	-	(17,134)	(17,134)
Other comprehensive loss	-	-	(73,134)	-	(73,134)
Total comprehensive loss	-	-	(73,134)	(17,134)	(90,268)
Translation reserve reclassified	-	-	1,980	(1,980)	-
Share based payments	-	-	-	342	342
At 31 October 2016	<u>3,854</u>	<u>5,934</u>	<u>7,945</u>	<u>(584,998)</u>	<u>(567,265)</u>

Notes:

1. The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and foreign exchange on intercompany loans treated as quasi equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 October 2016

	Note	2016 £'000	2015 £'000
Cash generated from operating activities			
Cash generated from operations	24	43,500	43,426
Tax paid		(5,941)	(6,192)
Net cash inflow from operating activities		<u>37,560</u>	<u>37,234</u>
Cash flows (used in) / from investing activities			
Investment in associate		(359)	-
Purchase of property, plant and equipment		(43,785)	(58,466)
Payments to acquire intangible assets		(1,381)	(2,904)
Proceeds from sale of property, plant and equipment		1,633	1,674
Proceeds from sale of assets held for sale		654	-
Proceeds from sale of business units		71,806	-
Interest received		-	253
Net cash from /(used in) investing activities		<u>28,568</u>	<u>(59,443)</u>
Cash flows (used in) / from financing activities			
Interest paid		(5,785)	(3,286)
Repayment of loan facility		(50,977)	(65)
Draw down on loan facilities		-	47,500
Finance lease repayments		(139)	(180)
Net cash (used in) / from financing activities		<u>(56,901)</u>	<u>43,969</u>
Net increase in cash and cash equivalents		9,227	21,760
Opening cash and cash equivalents		47,447	27,637
Effect of foreign exchange rate changes		7,646	(1,950)
Closing cash and cash equivalents	24	<u>64,320</u>	<u>47,447</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 October 2016

1. CORPORATE INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

Moray Finance Limited (the "Company") is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom ("UK").

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees) as adopted for use in the European Union ("EU") and the Companies Act 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The Group financial statements have been prepared on the historical cost basis, and discontinued operations held for sale which are stated at the lower of carrying value and fair value less costs to sell, as described in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The financial statements are presented in pounds sterling which is the currency of the country in which the Company was incorporated and the functional currency of the parent company. Foreign operations are included in accordance with the policies set out below.

The consolidated financial statements provide comparative information in respect of the previous period.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 October 2016. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern

At year end the Group held cash of £64.3m with external bank debt of £49.0m and shareholder balances payable owing to Fitness First Luxembourg SCA of £788.5m.

Following the successful sale of the Australian business in FY17 (December 2016), the Group has applied proceeds to fully repay its bank debt and has cash of £65.6m at 31 January 2017. The group also restructured its shareholder loan balances as part of this disposal process.

As at 31 January 2017, all remaining debt is with Fitness First Luxembourg SCA, a related party on which interest is rolled up rather than being cash settled. The debt comprised shareholder loans of £500.9m which did not mature until February 2020 and promissory notes of £205.2m, which did not have a fixed maturity. Subsequent to 31 January 2017, these promissory note agreements have been amended to mature in February 2020. As a result, there is no requirement to settle any debt within the next 12 months.

Cash movement for the remaining 9 months of FY17 was budgeted to be +£0.9m leaving an expected cash position at 31 October 2017 of £66.5m.

Two further transactions were entered into affecting the positions above. Surplus cash of £27.8m was returned to Fitness First Luxembourg SCA in part repayment of the shareholder loan. In addition the Vendor Loan Note (VLN) plus accrued interest together totalling £26.2m was passed up to Fitness First Luxembourg SCA in part repayment of the shareholder loan. The result of these transactions is that the shareholder loans are reduced by £54.0m and closing cash balance at 31 October 2017 is forecast to be £38.7m excluding the impact of proceeds from any future monetisation events.

The Group continues its strategy to realise shareholder value via monetisation. If successful, these transactions would generate significant unbudgeted cash inflows. In the meantime these business continue to trade as normal and are cash generative - the macroeconomics of the gym industry remain strong and the gym model is intrinsically cash generative due to the recurring upfront monthly receipts from members under contract, but it does rely on significant capital investment in order to protect membership revenues.

Cash flows have been projected out until October 2018 and are expected to remain positive for the remaining businesses.

Refer to the Strategic Report for additional disclosures relating to the longer term viability of the Group and Company.

After making enquiries, and in consideration of the foregoing, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Discontinued operations

Discontinued operations and non-current assets are classified as held for sale only if available for immediate sale in their present condition, a sale is highly probable and is expected to be completed within one year from the date of classification. Discontinued operations' results are presented separately from continuing operations' results in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The income statement and associated notes including prior year comparatives are presented for continuing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The financial statements are presented in pounds sterling which is the currency of the country in which the Company was incorporated. The presentation currency for the consolidated financial statements is also pounds sterling.

Transactions in foreign currencies are initially recorded in each entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the retranslation of financial liabilities designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognised in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results of foreign subsidiaries are translated at the average rates of exchange during the period and their balance sheets at the closing rates of exchange. Exchange differences arising from the translation of the opening net assets of subsidiaries at the closing rate and the retranslation of the profit or loss from average to closing rate are reported in other comprehensive income. Since 1 November 2007, the Group's date of transition to IFRS, such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Revenue

The Group derives its income principally from the sale of fitness club memberships and associated joining and administration fees, with secondary income from the sale of related food, drink, energy and personal training products. Membership income from individuals is recognised over the membership term. Corporate membership income is recognised on an accruals basis over the related membership period. Income relating to joining and administration fees is recognised immediately on the basis that the related service has been performed. Upfront payments under the 'Pay as you go' scheme is initially deferred and then recognised as revenue as and when services are used. Sales of goods are recognised when goods are delivered and title has passed. Franchise income is recognised on an accruals basis over the period to which the income relates. Revenue is recognised net of value added tax.

For new club openings, the Group sells memberships and collects joining and administration fees in the period before the club is opened. Income received in advance of the club opening is deferred until the club is open. Joining and administration fees received in advance are recognised at the date of the club opening and membership income received in advance is deferred until the club is open and then recognised on an accruals basis over the related membership period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, trade and assets purchased, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") or where applicable a collection of CGUs, expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, trade and assets, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other software assets

Costs to acquire computer software licences and bring them into use by the Group are capitalised and amortised over their estimated useful lives (3 to 10 years).

Internally-generated intangible assets

Information technology development costs which can be measured reliably are capitalised to the extent that an identifiable asset is created which will generate future economic benefits for the Group. Internally-generated assets are amortised on a straight-line basis over their useful lives (3 to 10 years). Where no internally-generated asset can be capitalised, information technology development costs are expensed as incurred.

Brand and trademark assets

Brand and trademark assets acquired in a business combination are recognised at fair value at the acquisition date. Brands and trademarks have a useful life of four years and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is charged on all 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
Land and buildings	over the term of the lease
Furniture, fittings and equipment	6.67% to 20% per annum
Fitness equipment	12.5% to 33.3% per annum
Computer equipment	10% to 33.3% per annum
Motor vehicles	25% per annum

The appropriateness of depreciation rates is reviewed on an annual basis. Any change in the estimated useful life, or residual value, is adjusted through the depreciation rates on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the lease term.

Assets classified as held for sale

A non-current asset is classified as held for sale only if available for immediate sale in their present condition; a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

Impairment of property, plant and equipment and intangible assets, excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible 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 the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss for the year.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is defined as being that expenditure that has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure should include the cost of purchase and such costs of conversion as are appropriate.

Net realisable value is the actual or estimated proceeds from the sale of inventory (net of trade discounts, but before settlement discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distributing directly related to the inventory in question.

Where the net realisable value is less than cost, inventory should be written down immediately through the current income statement. Within the year ended 31 October 2016 £nil was written down through the income statement (2015: £nil).

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are treated as owned assets and a corresponding liability to the lessor is held on the balance sheet. Lease payments are apportioned between finance charges and the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss for the year.

The costs of operating lease payments are charged against profit or loss on a straight-line basis over the expected lease term.

The expected lease term of property leases is calculated on a lease by lease basis. In most cases this period corresponds to the basic lease term. Where the basic lease term is short and the Group believes with reasonable certainty that it will operate the lease beyond the basic lease term, this period includes lease extension periods.

Future minimum guaranteed rent increases and lease incentives, such as rent free periods and landlord contributions, are recognised straight-line over the expected lease term, with the corresponding balance held in liabilities.

The impact of recognising property lease costs on a straight-line basis is a higher accounting rent charge compared to the cash charge in the first half of the lease term. This reverses over the second half of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised if, as a result of a past event, the Group has a present, legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect is material, the obligation is discounted to present value using a pre-tax rate that reflects current market assessments of the time value of money. A risk free rate is used as cash flows are already adjusted for risk. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contract provisions

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract; usually where it no longer operates a club on a site and the site is vacant or sublet. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Restoration provisions

Provision is made for costs of restoration to reinstate lease sites to their original condition at the end of the lease term where there is a contractual or constructive obligation and it is probable that the costs will be incurred. Costs of restoration are recognised as additions to property, plant and equipment incurred in fitting out the site at the inception of the lease and provision is made for the liability that is expected to arise. The additions are depreciated over the period of the lease term.

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

Long-term employee benefits

The Group has a contractual obligation when defined EBITDA levels are achieved and supplementary criteria are met with regards to a retention bonus it operates. The cost of providing benefits under the retention bonus is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the obligation).

Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. The interest element of the retention bonus cost represents the change in present value of the obligation resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the obligation, taking into account material changes in the obligation during the year.

The new MIP scheme also incorporates an element based on regional cash generation for complete financial years prior to and payable in the event of an exit. The current year expense is calculated as a % of each qualifying region's cash generation for the year and excludes any regions sold during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

The interest cost is recognised in the profit and loss account as other finance income or expense. The provision is measured as the net total of the present value of the defined benefit obligation and the fair value of plan assets (if any) out of which the obligations are to be settled directly, using the latest available long term forecast.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and unquoted financial instruments. During the year and at year-end, the Group has only designated financial assets as loans and receivables.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised through profit or loss for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. During the year and at year-end, the Group has only designated financial liabilities as loans and borrowings.

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, unless there is a significant modification to the terms of the borrowings in which case it is re-measured at fair value.

Borrowing costs directly attributable to the acquisition of a loan, or other borrowing facility, are capitalised against the fair value. Where costs relate to a drawn down facility they will be capitalised against the loan amount, and are amortised over the life of the facility, using the effective interest rate method, where material. Any costs in relation to an undrawn facility will be disclosed as a prepayment and released over the life of the facility.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derivative financial instruments

Historically the Group has entered into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and basis rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit or loss for the year immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Hedge accounting

The Group has historically designated certain hedging instruments, which include derivatives, as cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss for the year, and is included in the 'finance costs' line item.

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 or loss for the year as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

Pension costs represent the amounts payable into personal pension schemes on behalf of certain Directors and employees, together with amounts payable under defined contribution schemes for certain employees of the Group's subsidiary undertakings.

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is not recognised as an expense until vesting conditions are probable, at which point the relevant employees become entitled to the award and the expense is recorded evenly over the vesting period for employees expected to be entitled to the award.

The fair value of the share options is estimated at the grant date using a Black Scholes model, taking into account the terms and conditions upon which the share options were granted and the probability of the vesting condition. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in staff costs and Directors' emoluments. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is estimated based on the likely value of future awards.

Tax

The tax expense represents the sum of the corporation tax currently payable and deferred tax.

Corporation tax payable is based on taxable profit for the year using current tax rates that have been enacted or substantively enacted.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised if it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax (continued)

Deferred tax is calculated on an undiscounted basis at the rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date.

Deferred tax is charged or credited through profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Changes in accounting policies and disclosures

The following revised standards and interpretations became effective in the current year and have been adopted where applicable in these financial statements. Their adoption has not had any significant impact on the amounts reported but may impact the accounting for future transactions and arrangements:

Disclosure Initiative – Amendment to IAS 1

Equity Method in Separate Financial Statements – Amendments to IAS 27

The amendments to IAS 1 are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

The amendments to IAS 27 allow an entity to use the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

Standards and interpretations issued but not yet applied

The IASB has issued standards and interpretations, which are relevant to the Group's operations and have an effective date that does not require application in these financial statements. These are listed below;

Effective for annual periods beginning on or after 1 January 2017:

Disclosure Initiative (Amendments to IAS 7)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Effective for annual periods beginning on or after 1 January 2018:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

IFRS 16 Leases

IFRS 2 Classification and Measurement of Share-based Payment Transactions

Management is currently assessing the impact on the Group on the releases and amendments noted above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Accounting judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Operating lease commitments

The Group has entered into commercial property leases as a lessee. The classification of such leases as operating or finance leases requires the Group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it obtains all the significant risks and rewards of ownership of these properties. All property leases are accounted for as operating leases on this basis. Evaluation includes considerations such as whether the lease term constitutes a substantial portion of the economic life of the commercial property. Refer to note 6 for rentals charged under operating leases.

The expected lease term of property leases is calculated on a lease by lease basis. In most cases this period corresponds to the basic lease term. Where the basic lease term is short and the Group believes with reasonable certainty that it will operate the lease beyond the basic lease term, this period includes lease extension periods.

Software development costs

Software development costs are capitalised in accordance with the accounting policy as detailed in note 2. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed and that the software is useful to the Group, generating future economic benefits. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 October 2016, the carrying amount of capitalised development costs was £6.7m (2015: £8.5m). This amount predominantly relates to a proprietary billing and membership management system and CustomFit.

Quasi loans

At 31 October 2016, unlike in previous years, there was an expectation of future settlement or repayment of the intercompany balances due to the planned restructuring of the Group. This resulted in all foreign exchange gains on the intercompany loans and losses being booked in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Accounting judgements (continued)

Taxation

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider projected future taxable income and recent financial operations.

In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future pre-tax operating income, the reversal of taxable temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgement about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

If our assumptions change, any tax benefits or expense relating from a change in recognition of deferred tax assets will be accounted for through profit or loss, equity, or other comprehensive income through which the related deferred tax asset originated. Recognised and unrecognised deferred tax is disclosed in note 21.

If there is significant uncertainty over the amount of a future tax audit and a provision cannot be reliably estimated, a contingent liability may be disclosed in the financial statements and no provision is recognised.

Accounting estimates

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

Useful economic lives

The useful economic lives, as mentioned in current accounting policy in note 2, are assessed on annual basis based on latest available information. Management believe that the useful economic lives being used currently are still appropriate. Current year's depreciation and amortisation charge is shown in note 4.

Impairment of intangible assets and property, plant and equipment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment, based on a value in use or fair value less costs to sell calculation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Accounting estimates (continued)

Impairment of intangible assets and property, plant and equipment (continued)

The recoverable amounts of property, plant and equipment and goodwill are determined based on value in use calculations. The recoverable amounts are then compared to the carrying values of the assets. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in note 11 and 12.

When considering whether impairment charges can be reversed, management assesses whether an improvement has occurred that is both significant and sustained which involves estimation.

Provision for onerous property lease contracts

The Group makes provision against the cost of certain property lease contracts where it no longer operates a club on the site and the site is either vacant or sublet.

The value of the provision is determined based on the expected unavoidable future costs of the contract and the expected period during which these costs will continue to be incurred. Management estimates the expected period during which these costs will be incurred on a lease by lease basis, based on the current contract status, historical experience of resolving similar contracts, and knowledge of the local rental markets. For further information refer to note 22.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also required determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

The Group initially measures the cost of cash-settled transactions with employees based on the expected value of future awards which is dependent on the net proceeds generated from the sale of an operating segment. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period including the expected value of future awards and the vesting period. The only share-based payments were in relation to the management incentive plan further described in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Accounting estimates (continued)

Employee benefits

The amount recognised as a liability for other long-term employee benefits is the net total, at the end of the reporting year, of the present value of the defined benefit obligation and the fair value of plan assets (if any) out of which the obligations are to be settled directly. Refer to note 31.

Fair value of consideration

Consideration received and receivable on disposals includes both deferred cash and non-cash elements. Deferred cash elements on sales completed during the year have all been confirmed or received and therefore involve no estimation. Non-cash consideration include the Vendor Loan Note arising from the UK sale and the 35.5% stake in Fitness and Lifestyle Group obtained subsequent to year end. The fair value of the latter is yet to be determined and involves uncertainty in estimating future cashflows which may have an impact on the profit or loss on disposal to be recognised in future.

4. SEGMENTAL ANALYSIS

The Group operates one class of business as a leading global health and fitness provider. The Group started the year operating in four segments, corresponding to geographical regions, plus one segment representing central and other functions which includes the Group's head office and franchising operations. During the year the UK operating segment was fully disposed of. In addition, the Australian operating segment is now considered a discontinued operation because of the advanced status of sale negotiations at 31 October 2016. Refer to note 10 for further details on discontinued operations. The accounting policies of each segment are the same as those detailed in note 2. Inter-segment activity is limited to management services provided and the licensing of trademarks and IP. These items are recharged between segments on an arm's length basis.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated primarily based on revenue and adjusted EBITDA. Adjusted EBITDA represents reported operating profit adjusted to exclude depreciation, amortisation, and income and charges that are not allocated to specific operating segments as they are considered by management to be outside of underlying trading activity by virtue of their one-off incidence, size or nature. Classes of these kinds of charges are as follows:

- Restructuring and reorganisation - including redundancy and other costs of management change. Management view these charges as representing fundamental changes to management structures which are outside of underlying trading activity and accordingly they are not allocated to individual segments. Where operational roles are replaced on a like-for-like basis these charges are considered as underlying trading activity and reported within the segment results to which the costs relate. £1.6m of the charge in the year relates to ongoing restructuring programme in Germany.
- Club closure costs - costs incurred on the disposal or closure include club redundancy costs, legal provisions and fees, (reverse) surrender premiums, restoration or dilapidation costs and offset by the release of rent control accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. SEGMENTAL ANALYSIS (CONTINUED)

- Onerous lease costs - costs incurred relating to the provision for liabilities under onerous property contracts.
- Impairment of property, plant and equipment - impairment charges to the value of property, plant and equipment which are booked when clubs are identified as under-performing such that the expected future cash flows of those clubs is lower than the carrying value of their assets. Details of the impairment charges in the year, including reversals are detailed on page 40, and described in note 12.
- Impairment of intangible assets - relating to the impairment of Goodwill and Brand and Trademark assets with respect to the German business.
- Loss on disposal of property, plant and equipment and intangible assets – mainly relating to assets disposed of before the end of their useful life as a result of club closures and refurbishments.
- Other one-off operating charges - other charges and credits which are considered by management to be outside of underlying trading activity by virtue of their one-off incidence, size or nature and accordingly are not allocated to individual segments. These costs largely relate to £13.0m for Management Incentive Plan (MIP) and a further £0.1m of retention costs described in notes 30 and 31, £10.5m group exit strategy, charges in respect of potential tax enquiries of £2.4m in various local territories.

	2016	2015
	£'000	£'000
Revenue		
Asia	162,541	143,744
Germany	111,933	104,984
Other	7,463	8,570
Total revenue	<u>281,937</u>	<u>257,298</u>

	2016	2015
	£'000	£'000
Adjusted operating (loss) / profit		
Asia	13,524	14,517
Germany	3,189	3,631
Other	(18,107)	(14,450)
Total adjusted operating (loss) / profit	<u>(1,394)</u>	<u>3,698</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. SEGMENTAL ANALYSIS (CONTINUED)

	2016 £'000	2015 £'000
Revenue	281,937	257,298
Other operating expenses ¹	(249,733)	(224,473)
Adjusted EBITDA ²	<u>32,204</u>	<u>32,825</u>
Depreciation and amortisation	<u>(33,598)</u>	<u>(29,127)</u>
Adjusted operating (loss) / profit	(1,394)	3,698
Restructuring and reorganisation	(2,631)	(5,312)
Club closure costs	(1,046)	53
Onerous lease costs	(1,049)	706
Impairment of property, plant and equipment	(4,353)	(2,940)
Loss on disposal of property, plant and equipment and intangible assets	(1,196)	(1,884)
Impairment of intangible assets	(1,145)	-
Other one-off operating costs	<u>(22,594)</u>	<u>(6,108)</u>
Operating costs ³	<u>(317,345)</u>	<u>(269,085)</u>
Operating loss	<u>(35,408)</u>	<u>(11,787)</u>
Other one-off income ⁴	17,072	-
Finance income	9,907	5,256
Finance costs	(41,377)	(36,926)
Share of loss from associate	<u>(80)</u>	<u>-</u>
Loss before tax	<u><u>(49,886)</u></u>	<u><u>(43,457)</u></u>

¹ Other operating expenses represent operating costs less depreciation and amortisation and other adjustments to operating costs to arrive at adjusted operating profit.

² Adjusted EBITDA is adjusted operating profit before depreciation and amortisation.

³ Operating costs represents the sum of all cost items shown above it.

⁴ Other one-off income represents sale of franchise operations on 30 November 2015, comprising £17.5m of proceeds less £0.4m costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. SEGMENTAL ANALYSIS (CONTINUED)

Segmental analysis of assets:

	Non-current assets		Operating assets	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Asia	179,323	140,416	38,346	22,327
Australia	-	39,970	-	9,554
Germany	106,427	87,992	10,878	10,816
UK	-	62,853	-	7,940
Other	39,728	15,273	30,615	24,962
Total	325,478	346,504	79,839	75,599

Non-current assets consist of investment in associate, property, plant and equipment, intangible assets and trade and other receivables. Operating assets consist of inventories, trade and other receivables and cash and cash equivalents. Segment assets do not include deferred and corporation tax assets and assets classified as held for sale, as these assets are managed on a group basis.

Segmental analysis of depreciation and amortisation:

	2016	2015
	£'000	£'000
Asia	16,311	13,164
Germany	13,078	12,458
Other	4,209	3,505
Total	33,598	29,127

Segmental analysis of impairment of property, plant and equipment:

	2016	2015
	£'000	£'000
Asia	3,313	2,086
Germany	1,040	854
Total	4,353	2,940

Impairment charges primarily relate to underperforming clubs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. SEGMENTAL ANALYSIS (CONTINUED)

Segmental analysis of impairment of intangible assets

During the year an impairment charge of £1.1m (2015: £nil) was recognised in Germany. The charge consists of £0.8m for goodwill and £0.3m for other intangible assets.

Segmental analysis of capital expenditure:

	2016 £'000	2015 £'000
Asia	20,154	22,950
Germany	11,689	9,565
Other	1,906	4,262
Total	<u>33,749</u>	<u>36,777</u>

Capital expenditure consists of additions of property, plant and equipment, and intangible assets excluding goodwill. Total capital expenditure reduced in 2016 primarily due to completion of club refurbishment programmes in Australia and the UK

5. REVENUE

	2016 £'000	2015 £'000
Revenue		
POS fees	8,386	8,852
Membership dues	215,153	195,137
Miscellaneous revenue	58,398	53,309
	<u>281,937</u>	<u>257,298</u>

POS fees (Point Of Sale) refer to income received from a joiner at the time of opening a membership contract. Miscellaneous revenue includes other revenue received in club plus Business to Business revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

6. OPERATING LOSS

	2016 £'000	2015 £'000
Operating loss from continuing operations is stated after charging:		
Depreciation of property, plant and equipment	29,488	25,933
Amortisation of intangible assets	4,110	3,194
Impairment of property, plant and equipment	4,353	2,940
Impairment of intangible assets	1,145	-
Rentals under operating leases:		
Land and buildings	51,683	45,351
Other operating leases	435	403
Staff costs	95,747	86,712
Auditor's remuneration	801	999
	2016 £'000	2015 £'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the financial statements	249	211
The audit of the Company's subsidiaries pursuant to legislation	401	408
Total audit fees	650	619
Tax advisory services	256	47
Tax compliance services	17	9
Other assurance services	14	4
Corporate finance services	2,844	320
Total non-audit fees	3,131	380
Total remuneration	3,781	999

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Average number of persons (including Directors) employed by the Group in the year:	2016 No.	2015 No.
Office and management	693	718
Operations staff	4,331	4,392
	5,024	5,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS (CONTINUED)

Staff costs (including Directors) incurred during the year in respect of these employees were:	2016 £'000	2015 £'000
Wages and salaries	86,232	77,717
Social security costs	6,758	6,517
Other pension costs	2,757	2,478
	<u>95,747</u>	<u>86,712</u>
Directors' emoluments	2016 £'000	2015 £'000
Wages and salaries	50	441
Sums paid to third parties in respect of directors' services	3	171
Compensation for loss of office	415	-
	<u>468</u>	<u>612</u>

A director was also paid or was due to be paid at year end for non-director services received, details of which are included within note 29 Related Party Transactions

Highest paid Director	2016 £'000	2015 £'000
Wages and salaries	25	441
Sum paid to third parties in respect of director's services	2	5
Compensation for loss of office	415	-
	<u>442</u>	<u>446</u>

8. NET FINANCE COSTS

Finance costs consist of:	2016 £'000	2015 £'000
Interest expense		
Interest on bank loans and overdrafts	4,774	4,614
Interest on finance leases	6	12
Interest on amounts owed to Fitness First Luxembourg SCA	33,649	30,116
Total interest expense	<u>38,429</u>	<u>34,742</u>
Other finance costs		
Change in FV of derivatives	931	-
Amortisation of arrangement fees	1,533	1,525
Unwinding of discount on provisions	484	659
Total other finance costs	<u>2,948</u>	<u>2,184</u>
Total finance costs	<u>41,377</u>	<u>36,926</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

8. NET FINANCE COSTS (CONTINUED)

	2016 £'000	2015 £'000
Finance income consists of:		
Bank interest receivable	221	119
Total interest income	<u>221</u>	<u>119</u>
Other finance income		
Interest on security deposits	243	212
Exchange gains on foreign currency borrowings	9,443	4,925
Total other finance income	<u>9,686</u>	<u>5,137</u>
Total finance income	<u>9,907</u>	<u>5,256</u>
Net finance costs	<u>31,470</u>	<u>31,670</u>

9. TAX ON LOSS ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
Current tax		
UK corporation tax charge for the year	-	-
Double tax relief	-	-
Adjustments in respect of prior years	73	89
Current year foreign tax	4,938	5,377
Total current tax	<u>5,011</u>	<u>5,466</u>
Deferred tax		
Origination and reversal of temporary differences	(258)	(306)
Adjustments in respect of prior years	(706)	33
Total deferred tax	<u>(964)</u>	<u>(273)</u>
Tax charge attributable to continuing operations	<u>4,047</u>	<u>5,193</u>

UK corporation tax is calculated at 20.00% (2015: 20.40%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The 2015 Finance Act No 2 enacted a reduction of the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. A further reduction to the main rate of corporation tax for the year starting 1 April 2020 was introduced by Finance Act 2016, setting the rate at 17% rather than 18%. For the year ended 31 October 2016, the reduction to 17% has been enacted. Unrecognised deferred tax is calculated at 18%.

Deferred tax in other jurisdictions has been calculated using the rates at which deferred tax assets and liabilities are expected to unwind.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

9. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

The charge for the year can be reconciled to the loss for the year as follows:

	2016 £'000	2015 £'000
Accounting loss before income tax	(49,886)	(43,457)
Tax credit calculated at UK standard rate of corporation tax	(9,977)	(8,865)
%	20.00%	20.40%
Expenses not deductible for tax purposes	4,681	(397)
Effect of different tax rates on overseas earnings	46	(43)
Tax under provided in prior years	73	89
Deferred tax adjustments in respect of prior years	(706)	34
Deferred tax adjustments impact of restructuring	153	-
Change in unrecognised deferred tax assets	8,124	11,725
Withholding tax	1,653	2,650
Tax charge	4,047	5,193
Effective tax rate %	-8.11%	-11.95%

10. DISCONTINUED OPERATIONS AND DISPOSAL OF BUSINESS

	2016 £'000	2015 £'000
a) Disposal of business – UK	33,769	(1,427)
b) Discontinued operations - Australia	3,030	(7,244)
	36,799	(8,671)

a) Disposal of business – UK

As at 31 October 2016, the Group had fully disposed of Fitness First Clubs Limited and a number of other wholly owned UK subsidiaries, representing the entirety of the Group's UK operating segment comprising 64 clubs at the point of sale. Results for the year ended 31 October 2016 and the comparative period have been reported as discontinued operations in the statement of comprehensive income and as a result the UK segment is no longer included within the segmental analysis in note 4. The effective date of the disposal was 30 September 2016, on which date control of the UK business passed to the acquirer Dave Whelan Sports Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

10. DISCONTINUED OPERATIONS AND DISPOSAL OF BUSINESS (CONTINUED)

a) Disposal of business – UK (continued)

	2016 £'000	2015 £'000
Gain on disposal of business	29,139	-
Profit / (loss) for the year	<u>4,630</u>	<u>(1,427)</u>
Total results from discontinued operations	<u>33,769</u>	<u>(1,427)</u>

The results of the disposed discontinued operation, which have been included in the profit / (loss) for the year, were as follows:

	2016 £'000	2015 £'000
Revenue	67,634	75,435
Expenses	(62,041)	(76,282)
Impairment of property, plant and equipment	<u>(963)</u>	<u>(580)</u>
Profit / (loss) before tax	4,630	(1,427)
Attributable tax expense	-	-
Profit / (loss) for the year on discontinued operations	<u><u>4,630</u></u>	<u><u>(1,427)</u></u>

Impairment of property, plant and equipment of £1.0m was recorded in relation to head office assets as a result of conditions existing prior to the date of classifying the assets as held for sale. £Nil impairment was recognised when first classifying the assets and liabilities of the disposal group as held for sale.

The major classes of assets and liabilities disposed of are as follows:

	2016 £'000
Intangible assets	3
Property, plant and equipment	55,747
Inventories	152
Trade and other receivables	7,349
Cash and cash equivalents	<u>229</u>
Total assets disposed of	63,480
Trade and other payables	(15,339)
Accruals and deferred income	<u>(6,689)</u>
Total liabilities disposed of	(22,028)
Net assets of disposal group	<u><u>41,452</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

10. DISCONTINUED OPERATIONS AND DISPOSAL OF BUSINESS (CONTINUED)

a) Disposal of business – UK (continued)

Reconciliation to gain on disposal of the business

	2016
	£'000
Cash proceeds	44,596
Deferred consideration (Vendor loan note)	26,000
Total sale proceeds	<u>70,596</u>
Disposal of net assets	(41,452)
Release of accumulated translation reserve	(5)
Gain on disposal of business	<u>29,139</u>
Associated costs charged within operating costs in the income statement:	
Management Incentive Plan (MIP)	(3,028)
Sale costs	(3,853)
Adjusted gain on disposal of business	<u><u>22,258</u></u>

During the year ended 31 October 2016, the UK business contributed £8.9m to the Group's net operating cash flows, paid £2.1m in respect of investing activities and £6.9m in respect of financing activities.

b) Discontinued operations – Australia

As at 31 October 2016, the Group committed to fully dispose of Asia Pacific Group Limited and its trading subsidiary Fitness First Australia Pty Limited. Earlier in the year the group sold its wholly owned subsidiary Active Media Group Pty Ltd (AMG) to Val Morgan Outdoors for A\$17.5m (£10.1m). As a result, the entirety of its Australian operating segment comprising 63 clubs is considered a discontinued operation. The remaining Australian business' assets and liabilities were classified as a disposal group held for sale in the consolidated balance sheet as at 31 October 2016. The results for the year ended 31 October 2016 and the comparative period are reported as discontinued operations in the statement of comprehensive income and as a result the Australian segment is no longer included within the segmental analysis in note 4. Subsequent to year end, the sale completed on 13 December 2016, on which date control of the Australian business passed to the acquirer Fitness and Lifestyle Group for A\$110.6m (£64.7m) plus a 35.5% share in the newly created Australasian group combining Fitness First's Australian operations with other brands Goodlife Health Clubs and Jetts Fitness.

	2016	2015
	£'000	£'000
Gain on disposal of AMG	8,291	-
Loss for the year	(5,261)	(7,244)
Net gain / (loss) on disposal of business	<u>3,030</u>	<u>(7,244)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

10. DISCONTINUED OPERATIONS AND DISPOSAL OF BUSINESS (CONTINUED)

b) Discontinued operations – Australia (continued)

The results of the disposed discontinued operation, which have been included in the loss for the year, were as follows:

	2016	2015
	£'000	£'000
Revenue		
- Australia	112,948	104,453
- AMG	3,370	3,522
Expenses		
- Australia	(118,169)	(111,225)
- AMG	(2,527)	(3,220)
Impairment of property, plant and equipment (net of reversals)	(883)	(774)
Loss before tax	(5,261)	(7,244)
Attributable tax expense	-	-
Loss for the year on discontinued operations	(5,261)	(7,244)

Impairment of property, plant and equipment of £0.9m (2015: £0.8m) was recognised in relation to underperforming clubs as a result of conditions existing prior to the date of classifying the assets as held for sale. £Nil gain or loss was recognised on the measurement to fair value less costs to sell when first classifying the assets and liabilities of the disposal group as held for sale.

The major classes of assets and liabilities held for sale are as follows:

	2016
	£'000
Intangible assets	310
Property, plant and equipment	48,002
Inventories	998
Trade and other receivables	3,207
Cash and cash equivalents	9,020
Total assets classified as held for sale	61,537
Trade and other payables	(36,925)
Accruals and deferred income	(17,257)
Loans owed to Fitness First Luxembourg SCA	(122,142)
Total liabilities classified as held for sale	(176,324)
Net liabilities classified as held for sale	(114,787)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

10. DISCONTINUED OPERATIONS AND DISPOSAL OF BUSINESS (CONTINUED)

b) Discontinued operations – Australia (continued)

Reconciliation to gain on disposal of AMG

	2016
	£'000
Sale proceeds for AMG	10,293
Costs associated with sale	(155)
Disposal of net assets	(971)
Release of accumulated translation reserve	(876)
Gain on disposal of business	<u>8,291</u>
Associated costs charged within operating costs in the income statement:	
Sale costs	<u>(1,419)</u>
Adjusted gain on disposal of business	<u><u>6,872</u></u>

During the year ended 31 October 2016, the Australian business contributed £26.2m to the Group's net operating cash flows, paid £21.3m in respect of investing activities and £2.3m in respect of financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. INTANGIBLE ASSETS

	Goodwill £'000	Internally generated software assets £'000	Other software assets £'000	Brand and trademark £'000	Total £'000
Cost					
At 1 November 2014	508,970	28,706	19,290	1,187	558,153
Additions	-	1,659	1,240	5	2,904
Disposals	-	-	(5,738)	-	(5,738)
Exchange adjustments	(48,287)	-	(1,213)	(103)	(49,603)
At 31 October 2015	460,683	30,365	13,579	1,089	505,716
Additions	-	399	982	-	1,381
Disposals	(87,102)	(621)	(1,852)	-	(89,575)
Transfer to assets held for sale, now disposed	-	-	(838)	-	(838)
Transfer to assets held for sale	-	-	(2,856)	-	(2,856)
Exchange adjustments	110,732	-	2,404	281	113,417
At 31 October 2016	484,313	30,143	11,419	1,370	527,245
Amortisation					
At 1 November 2014	398,841	20,291	14,851	-	433,983
Amortisation charge for the year	-	1,398	1,475	321	3,194
Amortisation charge in respect of discontinued operations	-	-	322	-	322
Disposals	-	-	(5,514)	1	(5,513)
Exchange adjustments	(40,204)	-	(657)	(7)	(40,868)
At 31 October 2015	358,637	21,689	10,477	315	391,118
Amortisation charge for the year	-	2,298	1,462	350	4,110
Amortisation charge in respect of discontinued operations	-	-	253	-	253
Impairment charge for the year	821	-	-	324	1,145
Disposals	(87,102)	(513)	(1,833)	-	(89,448)
Transfer to assets held for sale, now disposed	-	-	(835)	-	(835)
Transfer to assets held for sale	-	-	(2,546)	-	(2,546)
Exchange adjustments	83,680	-	1,814	166	85,660
At 31 October 2016	356,036	23,474	8,792	1,155	389,457
Total at 31 October 2016	128,277	6,669	2,627	215	137,788
Total at 31 October 2015	102,046	8,676	3,102	774	114,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. INTANGIBLE ASSETS (CONTINUED)

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from the business combination. CGUs are deemed to be the geographical segments identified in note 4, and the carrying value of the goodwill by segment is as follows:

	2016 £'000	2015 £'000
Asia	68,873	54,151
Germany	59,404	47,895
	<u>128,277</u>	<u>102,046</u>

The increase in the goodwill in Asia and Germany in the year relates to foreign exchange movements.

The recoverable amounts of the CGUs are determined from value in use calculations (for Germany) and/or expected fair value less costs to sell (for Asia). For Germany, the value in use calculations are subject to a number of key assumptions, being the discount rates, growth rates and expected changes to selling prices and direct costs. The determination of these assumptions requires significant judgement and reflects, amongst other things, the Group's cost of capital and management's perspectives relating to the economic environment, the time value of money and risks specific to the CGUs. The Group's cash flow projections are based on industry forecasts and make assumptions regarding the Group's future performance, particularly regarding the Group's ability to attract new members and to retain existing members, and that there is no significant change to the economic, political, legal or social environment in which the Group operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts using the most recent financial budgets approved by management for the next three years and extrapolates on a perpetuity basis using an estimated long term growth rate of 1.5% (2015: 1.5%). Discount rates are based on the Group's weighted average cost of capital adjusted to reflect management's assessment of specific risks related to the cash generating unit. The discount rate used in 2016 were 8.3% for Germany (2015: 9.8%). The movement in the discount rate relates to movements in ratios and betas of companies within the same industry which have been used as benchmarks. Upon review of the performance of NewMoove Deutschland GmbH in Germany, an impairment of £0.8m has been recognised during the current year (2015: £nil). There are no reasonably possible changes in assumptions that could lead to a further impairment that require disclosure.

The disposal of fully impaired goodwill relates to the sale of the UK business during the year.

Additional £0.3m impairment charge was recognised against other intangible assets during 2016 (2015: £nil).

The net book value of internally generated software includes £nil (2015: £0.3m) of assets in the course of construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

12. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £'000	Fitness Equipment £'000	Furniture, Fittings & Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost						
At 1 November 2014	441,617	76,109	63,332	15,710	2,103	598,871
Additions	38,336	9,444	4,248	3,946	46	56,020
Disposals	(47,469)	(10,331)	(13,138)	(2,806)	(339)	(74,083)
Transfer to assets held for sale	(11,900)	(1,364)	(852)	(22)	-	(14,138)
Exchange adjustments	(32,052)	(5,966)	(5,061)	(1,000)	(255)	(44,334)
At 31 October 2015	388,532	67,892	48,529	15,828	1,555	522,336
Additions	28,483	6,213	4,300	3,480	33	42,509
Disposals	(15,820)	(6,458)	(2,415)	(2,851)	(615)	(28,159)
Transfer to assets held for sale, now disposed	(104,224)	(13,259)	(8,529)	(2,481)	(99)	(128,592)
Transfer to assets held for sale	(110,170)	(18,557)	(10,363)	(2,241)	(596)	(141,927)
Exchange adjustments	84,965	15,861	11,740	2,521	412	115,499
At 31 October 2016	271,766	51,692	43,262	14,256	690	381,666
Accumulated depreciation						
At 1 November 2014	253,153	47,987	46,181	11,857	1,715	360,893
Depreciation charge for the year	16,111	4,753	3,025	1,953	91	25,933
Depreciation charge in respect of discontinued operations	13,255	3,877	1,566	611	69	19,378
Impairment charge for the year	2,728	-	210	2	-	2,940
Impairment charge for the year in respect of discontinued operations	2,912	64	148	10	-	3,134
Impairment reversal for the year in respect of discontinued operations	(1,780)	-	-	-	-	(1,780)
Disposals	(44,209)	(9,187)	(12,479)	(2,716)	(326)	(68,917)
Transfer to assets held for sale, now disposed	(11,424)	(1,217)	(822)	(21)	-	(13,484)
Exchange adjustments	(19,235)	(3,878)	(3,804)	(1,055)	(225)	(28,197)
At 31 October 2015	211,511	42,399	34,025	10,641	1,324	299,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land & Buildings £'000	Fitness Equipment £'000	Furniture, Fittings & Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Accumulated depreciation						
Depreciation charge for the year	18,048	5,406	3,305	2,644	85	29,488
Depreciation charge for the year in respect of discontinued operations	11,684	3,107	1,268	643	60	16,762
Impairment charge for the year	4,036	-	317	-	-	4,353
Impairment charge for the year in respect of discontinued operations	1,900	-	93	-	-	1,993
Impairment reversal for the year in respect of discontinued operations	(148)	-	-	-	-	(148)
Disposals	(13,892)	(5,945)	(2,244)	(2,778)	(612)	(25,471)
Transfer to assets held for sale, now disposed	(56,218)	(7,898)	(6,184)	(2,023)	(92)	(72,415)
Transfer to assets held for sale	(70,442)	(12,615)	(8,684)	(1,626)	(558)	(93,925)
Exchange adjustments	49,061	10,532	8,488	1,722	358	70,161
At 31 October 2016	<u>155,540</u>	<u>34,986</u>	<u>30,384</u>	<u>9,223</u>	<u>565</u>	<u>230,698</u>
Total at 31 October 2016	<u>116,226</u>	<u>16,706</u>	<u>12,878</u>	<u>5,033</u>	<u>125</u>	<u>150,968</u>
Total at 31 October 2015	<u>177,021</u>	<u>25,493</u>	<u>14,504</u>	<u>5,187</u>	<u>231</u>	<u>222,436</u>

During the current year fixed assets with a net book value of £48.0m relating to Australia were transferred to assets held for sale. An impairment charge in Australia of £0.9m (2015: £0.8m), relating to underperforming clubs, which included reversal of £0.2m (2015: £nil) of previous impairment losses relating to Land and Buildings assets, was recorded during the year. The impairment charge is shown in profit from discontinued operations and disposals of business line in the income statement. The Group has sought to transfer the Australian businesses as a going concern and the assets were deemed highly probable to transfer within six months of the balance sheet date. Additionally, during the year fixed assets with a net book value of £0.4m relating to AMG business in Australia has been transferred to assets held for sale, now disposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year the Group has disposed of the UK business and fixed assets with a net book value of £55.7m has been transferred to assets held for sale, now disposed. An impairment charge of £1.0m relating to head office assets (2015: £0.6m relating to underperforming clubs), which included no reversals (2015: £1.8m) of previous impairment losses relating to Land and Buildings assets, was recorded during the year.

The Group tests at least annually whether there are any indicators of impairment of property, plant and equipment by considering whether any clubs are underperforming relative to their carrying value or in decline. For clubs with an indicator of impairment, a full impairment review is performed to compare the carrying value of assets against predicted future performance resulting in impairments of £4.3m (2015: £4.3m) of assets comprising continuing operations.

For continuing clubs, the recoverable amounts of the associated P,P&E are determined from value in use calculations. The value in use calculations are subject to a number of key assumptions, being the discount rates and long term cash flows, which in turn is dependent on growth rates and expected changes to selling prices and direct costs. The determination of these assumptions requires significant judgement and reflects, amongst other things, the Group's cost of capital and management's perspectives relating to the economic environment, the time value of money and risks specific to the assets. The Group's cash flow projections are based on industry forecasts and make assumptions regarding the Group's future performance, particularly regarding the Group's ability to attract new members and to retain existing members, and that there is no significant change to the economic, political, legal or social environment in which the Group operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group uses pre-tax rates ranging from 8.3% to 11.0% depending on the geographical segment in discounting the cash flow forecast.

The net book value of land and buildings comprises:

	2016 £'000	2015 £'000
Short leasehold	116,226	177,021
	<u>116,226</u>	<u>177,021</u>

Included in land and buildings are additions of properties in the course of construction amounting to £2.8m (2015: £6.1m). No amounts in relation to borrowing costs have been capitalised in the current or prior periods. The net book value of fixed assets includes £0.1m (2015: £0.5m) in respect of fitness equipment assets held under finance leases and hire purchase contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

13. INVESTMENT IN ASSOCIATE

At 31 October 2016 the Group has a 23% interest in My Fitness Club (MFC) in Germany, a gym aggregator, to develop new product offerings and share future profits. It also enables us to gain a better understanding of the latest trends and developments within the German fitness market.

In November 2015 by allowing all our Lifestyle/ Women and Platinum clubs to participate in the aggregator model, we were given a 20% stake in MFC with a nominal value of €7,000 (£6,000).

Fitness First lent MFC €400,000 (£281,000) to develop and market new products in the form of a convertible loan, repayable on 31 October 2017 with a coupon rate of 5%. This loan was converted into a further 3% stake in MFC during the year.

The Group's interest in MFC is accounted for using the equity method in the consolidated financial statements. The carrying value of the investment includes the Group's share of net assets plus the initial premium paid. The following illustrates the summarised information of the Group's investment in MFC:

	2016 £'000
Current assets	471
Non-current assets	152
Current liabilities	(95)
Non-current liabilities	-
Equity	<u>(528)</u>
Group's investment	<u>360</u>

	2016 £'000
Revenue	144
Expenses	<u>(522)</u>
Loss before tax	(378)
Income tax expense	-
Loss for the year	<u>(378)</u>
Group's share of loss for the year	<u>(80)</u>
Group's carrying amount of the investment	<u>280</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

14. INVESTMENTS IN SUBSIDIARIES

A list of the investments in subsidiaries is shown below:

Name of company	Country of incorporation or registration	% Interest held and voting rights
Fleet Lane Holdings Limited (formerly Fitness First Holdings Limited) (*)	UK	100% directly
Fleets Lane Limited (*)	UK	100% indirectly
Moray Limited (*)	UK	100% indirectly
Fleets Point Limited (formerly Fitness First Limited) (*)	UK	100% indirectly
Moray Overseas Holdings Limited (formerly Fitness First Overseas Holdings Limited) (*)	UK	100% indirectly
Connected Fitness Labs Limited (formerly Nutravida Ltd)	UK	100% indirectly
Fitness First Germany Holdings GmbH (*)	Germany	100% indirectly
Fitness First Germany GmbH	Germany	100% indirectly
NewMoove Deutschland GmbH	Germany	100% indirectly
My Fitness Clubs	Germany	23% indirectly
SPORTathlon Holdings (Thailand) Limited (*)	Thailand	100% indirectly
Fitness First (Thailand) Limited	Thailand	100% indirectly
SPORTathlon (Thailand) Limited	Thailand	100% indirectly
Fitness First Thai Limited(*)	Thailand	100% indirectly
SPORTathlon Holdings Limited (*)	Hong Kong	100% indirectly
Fitness First Hong Kong Limited	Hong Kong	100% indirectly
Fitness First Asia Limited	Hong Kong	100% indirectly
Fitness First Singapore Pte Limited	Singapore	100% indirectly
Fitness First Asia Holdings Pte Limited(*)	Singapore	100% indirectly
Fitness First Philippines Inc	Philippines	100% indirectly
SPORTathlon Asia Sdn Bhd (*)	Malaysia	100% indirectly
SPORTathlon (Malaysia) Sdn Bhd	Malaysia	100% indirectly
PT Fitness First Indonesia	Indonesia	100% indirectly
Fitness First India Private Limited	India	100% indirectly
Fitness First Asia Pacific Group Pty Ltd (*)	Australia	100% indirectly
Fitness First Australia Pty Limited	Australia	100% indirectly

(*) Holding companies

All the above companies are engaged in the Group's principal activity with the exception of those identified above as being holding companies. Fitness First Asia Pacific Group Pty Ltd and Fitness First Australia Pty Limited were sold on 13 December 2016. Refer to subsequent events note 32 for more details.

15. INVENTORIES

	2016	2015
	£'000	£'000
Goods for resale	<u>3,761</u>	<u>3,806</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

16. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Current:		
Trade receivables	2,678	3,942
Allowance for doubtful debts	(242)	(216)
	<u>2,436</u>	<u>3,726</u>
Other receivables	38,684	10,495
Prepayments	4,595	9,443
Amounts owed from FF Luxembourg SCA	1,063	682
	<u>44,342</u>	<u>24,346</u>
Non-current:		
Other receivables	10,442	9,470
Total	<u><u>57,220</u></u>	<u><u>33,816</u></u>

Current other receivables primarily consists of the Vendor loan note owed by Dave Whelan Sports Ltd and deposits paid at the outset of the lease plus price and net working capital adjustments not yet received relating to exits of £5.0m.. On 28 February 2017, the Vendor Loan Note of £26.0m issued as part of the UK sales process plus accrued interest of £0.2m was transferred to Fitness First Luxembourg SCA in part settlement of the shareholder loan.

17. CASH AND CASH EQUIVALENTS

	2016 £'000	2015 £'000
Current:		
Cash at bank and in hand	55,300	46,561
Short-term bank deposits	-	886
	<u>55,300</u>	<u>47,447</u>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 October 2016:

	2016 £'000	2015 £'000
Cash at bank and in hand	55,300	47,447
Cash at bank and in hand attributable to discontinued operations	9,020	-
Cash and cash equivalents	<u><u>64,320</u></u>	<u><u>47,447</u></u>

Cash amounts shown in the going concern disclosures are shown in total including amounts attributable to discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

18. TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Current:		
Trade payables	7,364	11,094
Other payables	13,705	17,723
Accruals and deferred income	53,961	57,057
	<u>75,030</u>	<u>85,874</u>
Non-Current:		
Other payables	31,650	51,267
Deferred income	1,177	1,242
	<u>32,827</u>	<u>52,509</u>
Total	<u><u>107,857</u></u>	<u><u>138,383</u></u>

The other payables balances predominately relate to the rent control account, to account for spreading of lease payments over the life of the lease.

19. BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2016 £'000	2015 £'000
Current		
Bank loans	48,334	-
Derivative financial instruments	931	-
Finance lease liabilities (note 20)	46	161
Loans owed to Fitness First Luxembourg SCA	115,338	109,105
	<u>164,649</u>	<u>109,266</u>
Non-current		
Finance lease liabilities (note 20)	10	29
Loans owed to Fitness First Luxembourg SCA	550,983	528,454
Bank loans	-	97,781
	<u>550,993</u>	<u>626,264</u>
Total	<u><u>715,642</u></u>	<u><u>735,530</u></u>

Following year end the current loans owed to Fitness First Luxembourg SCA were amended to mature in February 2020 and are no longer repayable on demand. Non-current loans owed to Fitness First Luxembourg SCA have a maturity date of 18 February 2020, and interest accrues at a fixed rate of 5.6183%.

The bank loan of £48.3m represents the 3 year syndicated financing agreement facility of £115.0m, this consists of two elements; a £100.0m cash facility and a £15.0m revolving credit facility (RCF), available for capital investment or other corporate purposes. During the year the Group repaid £51.0m of the full £100.0m of the cash facility previously drawn down and had utilised £15.0m of the RCF, for bank guarantees and letters of credit. The loan is shown net of unamortised arrangement fees of £0.7m. The facility has a maturity date of 22 April 2017. Interest at a blended rate of 4.8479% has been accrued during the year. Subsequent to year end the cash facility was fully repaid from cash proceeds from the sale of the Australian business. Refer to subsequent events note for further details. Loans owed to FF Luxembourg SCA shown above exclude the £122.1m loan to Asia Pacific Group Limited (a discontinued operation). Including this, the total shareholder loans equal £788.5m. Shareholder loans are shown in total in the Directors' report. The bank loans above attract financial covenants which are disclosed in more detail in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

20. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS**Obligations under finance leases and hire purchase contracts**

The Group uses finance leases and hire purchase contracts to acquire fitness equipment and motor vehicles. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	2016 £'000	2015 £'000
Future minimum payments due		
Not later than one year	33	133
After one year but not more than five years	30	69
	<u>63</u>	<u>202</u>
Less finance charges allocated to future periods	<u>(7)</u>	<u>(12)</u>
Present value of minimum lease payments	<u>56</u>	<u>190</u>
Analysed as		
Not later than one year	72	161
After one year but not more than five years	10	29
	<u>82</u>	<u>190</u>

Operating lease commitments

The Group leases various clubs and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also leases various plant and machinery under non-cancellable operating lease agreements. The lease expenditure charged to profit or loss during the year is disclosed in note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Within one year	63,677	90,905	394	367
Two to five years	229,339	340,597	468	216
After five years	214,800	373,169	-	4
	<u>507,816</u>	<u>804,671</u>	<u>862</u>	<u>587</u>

At 31 October 2016 various subsidiaries of the Company benefited from bank guarantees in respect of rental obligations totalling £11.9m (2015: £14.6m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

21. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle them on a net basis. The amounts after offset are as follows:

	2016 £'000	2015 £'000
Deferred tax assets	3,114	1,568
Deferred tax liabilities	(25)	(22)
Deferred tax assets (net)	<u>3,089</u>	<u>1,546</u>

Net provided deferred tax assets and liabilities:

	Accelerated capital allowances	Other short term temporary differences	Unused tax losses	Total
At 31 October 2015	(661)	2,193	14	1,546
(Charged)/ credited profit for the year	972	585	(14)	1,543
At 31 October 2016	<u>311</u>	<u>2,778</u>	<u>-</u>	<u>3,089</u>

Deferred tax assets and liabilities before offset of balances within countries:

	Accelerated capital allowances	Other short term temporary differences	Unused tax losses	Total
Gross deferred tax asset	4,589	13,251	67,706	85,546
Gross deferred tax liability	(5,800)	-	-	(5,800)
Less unrecognised	1,522	(10,473)	(67,706)	(76,657)
Net recognised deferred tax	<u>311</u>	<u>2,778</u>	<u>-</u>	<u>3,089</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

21. DEFERRED TAX (CONTINUED)

Unrecognised deferred tax asset:

	2016 £'000	2015 £'000
Capital allowances	(1,522)	27,037
Other short term temporary differences	10,473	15,930
Unused tax losses	67,706	60,744
Deferred tax assets (net)	76,657	103,711

The Group has not recognised the above deferred tax assets as it is not probable that the assets will be recovered.

At 31 October 2016 the Group has gross unused tax losses of £322.1m (2015: £300.0m) which have not been recognised. These losses will be recovered if there are suitable profits against which they can be relieved in future periods. In the Philippines, Indonesia and India losses expire 3, 5, 8 years respectively from the year that the loss arises.

At 31 October 2016, the Group has gross temporary differences arising on unremitted earnings of £69.2m (2015: £45.3m).

No deferred tax liability has been recognised in respect of unremitted earnings of subsidiaries and joint ventures because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. It is not practicable to estimate the amount of unrecognised deferred tax liabilities in respect of these unremitted earnings.

22. PROVISIONS

	Club restoration provision £'000	Onerous leases provision £'000	Other provisions £'000	Total £'000
At 1 November 2014	17,352	4,974	2,086	24,412
Additions ¹	2,144	2,114	1,159	5,417
Charge ² / utilisation for the year	238	(1,983)	(945)	(2,690)
Credit ² / utilisation for the year in respect of discontinued operations	(119)	(263)	(27)	(408)
Unwinding of discount in the year	642	17	-	659
Unwinding of discount in the year in respect of discontinued operations	45	34	-	79
Exchange adjustments	(1,289)	(403)	-	(1,692)
At 31 October 2015	19,013	4,490	2,274	25,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

22. PROVISIONS (CONTINUED)

	Club restoration provision £'000	Onerous leases provision £'000	Other provisions £'000	Total £'000
Additions ¹	1,748	674	10,955	13,377
Charge ² / utilisation for the year	83	(785)	(1,771)	(2,473)
Credit ² / utilisation for the year in respect of discontinued operations	(228)	(2,161)	(111)	(2,500)
Unwinding of discount in the year	470	14	-	484
Unwinding of discount in the year in respect of discontinued operations	20	44	-	64
Transfer to assets held for sale, now disposed	(231)	(1,946)	-	(2,177)
Transfer to assets held for sale	(3,415)	392	(191)	(3,214)
Exchange adjustments	5,353	634	-	5,987
At 31 October 2016	22,813	1,356	11,156	35,325

¹ Represents new provisions arising during the year

² Represents the adjustment or utilisation of existing provisions during the year

The club restoration provision relates to estimated costs to reinstate lease sites to their original condition at the end of the lease term. The onerous lease provision represents amounts recognised in connection with property commitments which are considered onerous in line with Group policy and will be released over the period of the relevant leases.

The other provisions balance relates primarily to the new Management Incentive Plan (MIP) and retention bonus, the detail of which can be seen in notes 30 and 31 respectively.

Cash flows relating to the restoration provision will be incurred at the end of the lease term. Cash flows relating to the onerous lease provision will be incurred over the remaining lease term. Cash flows relating to the MIP are expected to be paid within 6 months of the relevant regional exit date.

Analysis of total provisions

	2016 £'000	2015 £'000
Current	11,676	3,548
Non-current	23,649	22,229
Total provisions	35,325	25,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

23. SHARE CAPITAL

	2016 No.	2015 No.	2016 £'000	2015 £'000
Authorised, allotted, called up and fully Paid				
Ordinary shares of £1 each	3,854,061	3,854,061	3,854	3,854

24. NOTES TO CASHFLOW STATEMENT

	2016 £'000	2015 £'000
Loss for the year from continuing operations	(53,933)	(48,650)
Profit for the year from discontinued operations	36,799	(8,671)
<i>Non-cash and non-operating items:</i>		
Profit on disposal of business operations	(37,430)	-
Equity settled share-based payment expense	342	-
Loss on disposal of property, plant and equipment	968	3,491
Loss on disposal of intangible asset	228	224
Depreciation of tangible fixed assets	29,488	45,311
Amortisation of intangible assets	4,110	3,517
Depreciation and amortisation of fixed assets of discontinued operations	17,015	-
Impairment of property, plant and equipment	4,353	6,074
Impairment reversal of property, plant and equipment held for sale	(148)	(1,780)
Impairment of intangible assets	1,145	-
Impairment of property, plant and equipment of discontinued operations	1,993	-
Share of loss of an associate	80	-
Onerous lease costs	674	2,114
Other one-off income	(17,072)	-
Finance costs	41,378	42,056
Finance income	(9,907)	(4,363)
Tax charge	4,047	5,193
Operating profit before changes in working capital and provisions	24,130	44,516
<i>Change in operating assets and liabilities:</i>		
Increase in inventories	(73)	(768)
(Increase) / decrease in receivables	(1,820)	1,301
Increase in payables	15,491	317
Increase / (decrease) in provisions	5,772	(1,940)
Cash generated from operations	43,500	43,426
Cash and cash equivalents	64,320	47,447
	64,320	47,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

25. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2016 £'000	2015 £'000
Property, plant and equipment	<u>7,807</u>	<u>8,826</u>

The committed capital primarily relates to the opening of new clubs in Germany.

26. CONTINGENT LIABILITIES

The Group has retained certain landlord guarantees in respect of clubs sold to Dave Whelan Sports Limited, which are in the process of being transferred to the buyer. There are no known or anticipated circumstances in which we expect a liability to materialise to the Group.

27. FINANCIAL INSTRUMENTS

Capital management

The capital structure of the Group consists of related party debt (as disclosed in note 19) and external borrowings, cash and cash equivalents and equity reserves.

Treasury policy and financial risk management

The Group's financial instruments, other than derivatives, comprise related party and external borrowings, cash and liquid resources and various other items, such as trade receivables and payables.

The Group has historically entered into derivative transactions, principally forward foreign currency contracts. The purpose of these transactions was to manage the currency risk arising from the Group's operations. It is the Group's policy not to hold financial instruments for trading purposes.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks faced by the Group are liquidity and funding, foreign exchange, and credit risk. The Group's policies in respect of the management of these risks, are as follows:

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group could be unable to settle or meet its obligations as they fall due. The Group finances its operations through a combination of cash generated from operations, related party and external borrowings, leasing and equity resources. The Group monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)**Liquidity and funding risk (continued)**

The bank loan of £48.3m represents the 3 year syndicated financing agreement facility of £115.0m, this consists of two elements; a £100.0m cash facility and a £15.0m revolving credit facility (RCF), available for capital investment or other corporate purposes. During the year the Group repaid £51.0m of the full £100.0m of the cash facility previously drawn down and had utilised £15.0m of the RCF, for bank guarantees and letters of credit. The loan is shown net of unamortised arrangement fees of £0.7m. The facility has a maturity date of 22 April 2017. Interest at a blended rate of 4.8479% has been accrued during the year.

As discussed in note 19, at year end the Group had repaid £51.0m of the £100.0m cash facility and utilised £15.0m of the RCF.

	2016 £'000	2015 £'000
Available facilities – undrawn		
Within one year	-	2,000
 Cash and cash equivalents	 55,300	 47,447
	<u>55,300</u>	<u>49,447</u>

There are no financial covenant requirements in relation to the related party debt or the undrawn facilities. The Group's financial covenants in relation to syndicated lending were removed as the debt was repaid post year end. The following table sets out the contractual maturity of financial liabilities:

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2015						
Bank loans and overdrafts	-	-	-	100,000	-	100,000
Finance lease liabilities	-	3	158	29	-	190
Loans owed to:						
FF Luxembourg SC	109,105	-	-	528,454	-	637,559
Trade payables	-	11,094	-	-	-	11,094
Total	<u>109,105</u>	<u>11,097</u>	<u>158</u>	<u>628,483</u>	<u>-</u>	<u>748,843</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)**Liquidity and funding risk (continued)**

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2016						
Bank loans and overdrafts	-	-	48,334	-	-	48,334
Derivative financial instruments	-	931	-	-	-	931
Finance lease liabilities	-	-	46	10	-	56
Loans owed to:						
FF Luxembourg SCA	115,338	-	-	550,983	-	666,321
Trade payables	-	7,364	-	-	-	7,364
Total	115,338	8,295	48,380	550,993	-	723,006

Loans owed to FF Luxembourg SCA shown above exclude the £122.1m loan to Asia Pacific Group Limited as this is a discontinued operation. Including this amount the total shareholder loans equal £788.5m. Shareholder loans are shown in total in the going concern disclosures.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates arises primarily where the Group has commitments in foreign currency which are not matched with cash flows within the Group. The Group policy is to hedge significant transactional currency exposures with the use of financial instruments as appropriate. The Group is primarily exposed to foreign exchange risk in relation to movements in the Euro, US dollar, Thai Baht and Australian dollar against Sterling.

The Group translates overseas results and net assets into Sterling in accordance with the accounting policies in note 2. The impact of retranslating the net assets of foreign operations into Sterling is excluded from the sensitivity analysis as these are not considered within the scope of IFRS 7.

The following table demonstrates the sensitivity to reasonably possible changes in the Sterling against Euro, US dollar and Australian dollar exchange rates with all other variables held constant. This is primarily the effect on the Group's profit before tax due to re-translation of foreign currency monetary assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

Foreign exchange rate ("FX") risk Sterling vs.	Increase in FX rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000	Decrease in FX rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000
Euro	5%	6,835	6,835	(5%)	(7,555)	(7,555)
US dollars	5%	1,918	1,918	(5%)	(2,119)	(2,119)
Australian dollars	5%	(2,504)	(5,048)	(5%)	2,767	5,579
At 31 October 2015		<u>6,249</u>	<u>3,705</u>		<u>(6,907)</u>	<u>(4,095)</u>
Euro	5%	8,498	8,498	(5%)	(9,393)	(9,393)
US dollars	5%	2,483	2,483	(5%)	(2,744)	(2,744)
Australian dollars	5%	(3,509)	(6,674)	(5%)	3,878	7,376
At 31 October 2016		<u>7,472</u>	<u>4,307</u>		<u>(8,259)</u>	<u>(4,761)</u>

The Directors consider that a 5% change (2015: 5%) in the value of Sterling against US dollars, and a 5% (2015: 5%) change in the value of Sterling against the Euro and Australian dollars is reflective of historical movements in foreign exchange rate movements and an appropriate sensitivity in the above table.

At the reporting date the Group held significant foreign currency denominated monetary assets and liabilities including cash and related party borrowings from its parent company. Of cash, £5.8m (2015: £5.3m) was held in Euros, £9.0m (2015: £6.6m) in Australian dollars, and £0.2m in US dollars (2015: £nil). Of loans owed to Fitness First Luxembourg SCA, £364.3m (2015: £275.2m) was denominated in Euros, £122.1m (2015: £83.2m) in Australian dollars, and £51.1m (2015: £38.1m) in US dollars.

Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. There is exposure to interest rate risk on bank borrowings in Sterling.

The Group has not entered into replacement derivative arrangements because the directors believe there is a low risk of a substantial upward variable interest rate movement.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant. This shows the effect of hypothetical market interest rates on the Group's loss before tax through the impact on floating rate borrowings and re-evaluation of the fair value of derivatives not in a hedge accounting relationship and changes in equity due to re-evaluation of the fair value of interest rate derivatives accounted for as cash flow hedges. The shareholder loan is at a fixed interest rate and therefore has no exposure to fluctuations in interest risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

The impact of the change in interest rates has been considered in isolation and excludes any correlated change in foreign currency exchange rates.

Interest rate risk	Increase in Interest rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000	Decrease in Interest rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000
GBP	0.5%	(500)	(500)	(0.5%)	500	500
At 31 October 2015		<u>(500)</u>	<u>(500)</u>		<u>500</u>	<u>500</u>
GBP	0.5%	(471)	(471)	(0.5%)	471	471
At 31 October 2016		<u>(471)</u>	<u>(471)</u>		<u>471</u>	<u>471</u>

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. This concerns both trade and other receivables and financial assets.

The Group is exposed to credit risk attributed to trade and other receivables. The Directors do not consider the risk to be significant to the Group as the risk is spread across a large number of parties.

Credit risk also arises from other financial assets of the Group, primarily cash and cash equivalents, through the default of a counterparty. The maximum exposure is equal to the carrying value of these instruments.

The Group manages these risks by maintaining its cash and cash equivalents and derivative financial instruments across a range of counterparties and monitoring the credit ratings of these institutions. The Directors believe credit risk on these financial instruments is limited as the Group predominantly deals with banks with high credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)**Credit Risk (continued)**

The Group is also exposed to the risk of withdrawal of the undrawn committed facilities in the event that any of the Group's banks suffer financial difficulties. This risk is mitigated by the Group having a range of counterparties in the provision of these facilities.

The ages of trade and other receivables were as follows:

	Total £'000	Neither past due nor impaired £'000	0 - 30 days £'000	30 - 60 days £'000	60 - 120 days £'000	More than 120 days £'000
2015						
Trade receivables, net	3,726	628	1,476	597	777	248
Other receivables	11,177	5,100	3,360	225	82	2,410
2016						
Trade receivables, net	2,437	469	1,055	250	190	473
Other receivables	39,747	34,791	531	129	411	3,885

Trade receivables past due but not impaired relate to customers where there has been no history of default and the amounts are considered fully recoverable.

On 28 February 2017, the Vendor Loan Note of £26.0m issued as part of the UK sales process plus accrued interest of £0.2m was transferred to Fitness First Luxembourg SCA in part settlement of the shareholder loan.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
Financial assets				
Cash and cash equivalents	47,447	-	47,447	47,447
Trade and other receivables	24,373	-	24,373	24,373
Financial liabilities				
Bank loans and overdrafts	-	(97,781)	(97,781)	(97,781)
Finance lease and hire purchase obligations	-	(190)	(190)	(190)
Loans owed to:				
FF Luxembourg SCA	-	(637,559)	(637,559)	(637,559)
Trade payables	-	(11,094)	(11,094)	(11,094)
At 31 October 2015	<u>71,820</u>	<u>(746,624)</u>	<u>(674,804)</u>	<u>(674,804)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

27. FINANCIAL INSTRUMENTS (CONTINUED)**Fair values of financial assets and financial liabilities (continued)**

	Loans and receivables £'000	Amortised cost £'000	Fair value through profit and loss £'000	Total book value £'000	Fair value £'000
Financial assets					
Cash and cash equivalents	55,300	-	-	55,300	55,300
Trade and other receivables	55,626	-	-	55,626	55,626
Financial liabilities					
Bank loans	-	(48,334)	-	(48,334)	(48,334)
Derivative financial instruments	-	-	(931)	(931)	(931)
Finance lease and hire purchase obligations	-	(56)	-	(56)	(56)
Loans owed to:					
FF Luxembourg SCA	-	(666,321)	-	(666,321)	(666,321)
Trade payables	-	(7,364)	-	(7,364)	(7,364)
At 31 October 2016	<u>110,926</u>	<u>(722,075)</u>	<u>(931)</u>	<u>(612,080)</u>	<u>(612,080)</u>

The fair value of cash and cash equivalents, trade payables and trade and other receivables is equal to book value as they are short term in nature with the exception of the £26.0m Vendor Loan Note (VLN) which is considered equal to its book value as it is on commercial terms and Fitness First Luxembourg SCA have agreed to have it assigned in their favour in exchange for an equal repayment of the loans owed to them. We do not believe there is a difference between fair value and book value for the bank loans based on market rates for instruments with substantially the same terms and characteristics. The fair value of finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The book value of the loans owed to FF Luxembourg SCA are considered to approximate fair value as the terms of these loans are considered to be at arm's length. The book value of the loan owed to shareholders of FF Luxembourg SCA is shown net of unamortised arrangement fees. The fair value is deemed to be value of the amount drawn down.

Other payables, accruals and provisions are also considered to approximate fair value due to their nature. These amounts are further disclosed in note 18 and 22 where the classification as current and non-current is also shown.

Carrying value of the derivative financial instrument, a forward foreign exchange contract is equal to its fair value as it is short term in nature.

28. PENSION SCHEMES

There is no Group pension scheme although the Group does make contributions on behalf of certain directors and employees in respect of personal pension arrangements together with contributions under defined contribution schemes relating to the employees of certain of the Group's subsidiary undertakings, which are disclosed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

29. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Executive Group, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2016 £'000	2015 £'000
Short-term employee benefits	2,669	2,113
Post-employment benefits	48	34
Sums paid to third parties	43	203
Compensation for loss of office	415	-
	<u>3,175</u>	<u>2,350</u>

Related party transactions

The Group paid an annual fee of £0.8m (2015: £1.5m) to Oaktree Capital Management relating to Director's services. £0.1m was owed at year end (2015: £1.0m). The Group were charged £0.5m (2015: £0.2m) for consultancy services, and £0.1m (2015: £0.1m) for reimbursement of expenses by Oaktree Capital Management; £0.1m was owed at year end in respect of consultancy fees and £0.1m for reimbursement of expenses. Oaktree is a related party of the Group by virtue that it advises funds which own 60% of the issued ordinary share capital of the Group.

During the year transactions totalling £1.4m (2015: £0.5m) were incurred by the Group on behalf of the ultimate parent company, Fitness First Luxembourg SCA. These were offset against the Group's loans outstanding with the shareholders, with effect from 1 September 2016.

During the year a key management personnel provided £0.9m (2015: £0m) of advisory services to the Group in his role of CEO, of which £0.4m was outstanding at year end. This is included within the remuneration of the Executive Group above.

30. SHARE BASED PAYMENTS

Management Incentive Plan

A management incentive plan (MIP) which was established on 14 February 2013, to reward certain key management personnel employed by the various entities within the Group should a favourable exit be achieved by the shareholders of the Group, was replaced in November 2015, as it was deemed unlikely to 'pay out' due to overall underperformance versus the original expectations and targets. This has resulted in a recognition of a share option charge in the income statement of £0.3m in year ending 31 October 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

30. SHARE BASED PAYMENTS (continued)

Management Incentive Plan (continued)

The new MIP scheme is designed to incentivise regional management to maximise proceeds from sale. It is an event driven regional scheme and is cash-settled i.e. a cash bonus is payable based on a percentage of net proceeds when that region exits.

Each Region (operating segment) generates a 'pool' based on a % of net sale proceeds from the individual region. The pool generated is then available for distribution to the key management personnel included in the new scheme. Individuals within the scheme have been allocated a percentage share of the pool generated from the exit. As a condition of being eligible for the new scheme all participants have had to surrender their shares in the MIP. Total liabilities at the period end arising from share-based payment transactions is £9.2m included within other provisions.

The expense recognised for employee services received during the year is shown in the following table:

	2016 £'000	2015 £'000
Expense arising from equity-settled share-based payment transactions	342	-
Expense arising from cash-settled share-based payment transactions	11,201	-
Total expense arising from share-based payment transactions	11,543	-

	2016 No.	2015 No.
Outstanding at 1 November	833,533	905,297
Granted during the year	-	-
Forfeited during the year	442,356	71,764
Exercised during the year	-	-
Surrender during the year	391,177	-
Outstanding at 31 October	-	833,533
Exercisable at 31 October	-	-

31. EMPLOYEE BENEFITS

On 5 August 2013 the board of directors approved a retention bonus for a number of employees. The bonus becomes payable on achieving defined EBITDA levels and supplementary criteria including continued employment. The present value of the expected liability is £0.2m (2015: £0.8m) which is included in non-current provisions. During the year, £0.6m was released in respect of retention bonus as it was not deemed probable that the Group EBITDA targets would be met as a result of the monetisation programme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

The new MIP scheme also incorporates an element based on regional cash generation, payable in the event of an exit which resulted in a charge of £1.5m. This element of the scheme does not meet the criteria of IFRS 2 Share based payments but is considered an employee benefit. In addition, management issued an additional retention scheme during the year whereby individuals accrue a % of salary if they continue in employment payable when they are a good leaver, resulting in a charge of £0.7m. The present value of the expected liability of these two new schemes is £1.5m and £0.4m respectively.

32. SUBSEQUENT EVENTS

On 13 December 2016, the Group fully disposed of Asia Pacific Group Limited and its trading subsidiary Fitness First Australia Pty Limited, representing the remainder of its Australian operating segment. Control of the Australian business passed to the acquirer Fitness and Lifestyle Group in exchange for A\$110.6m (£64.7m) plus a 35.5% share in the newly created Australasian group combining Fitness First's Australian operations with other brands Goodlife Health Clubs and Jetts Fitness. The investment in the newly created group was immediately passed to Fitness First Luxembourg SCA in part repayment of its on demand promissory note. The nominal value of A\$115.0m (£68.0m) has been applied in calculating repayment as the fair value exercise required has not been completed. The cash proceeds were utilised to fully repay the Group's term loan facility ahead of its contractual maturity.

On 10 February 2017 the Group passed surplus cash of £27.8m to Fitness First Luxembourg SCA in part settlement of its shareholder loan.

On 11 February 2017, the Group signed a shareholders contribution agreement to combine the majority of our Asian business with a third party in exchange for a cash contribution and a majority stake in the newly formed entity.

On 28 February 2017, the Vendor Loan Note of £26.0m issued as part of the UK sales process plus accrued interest of £0.2m was transferred to Fitness First Luxembourg SCA in part settlement of the shareholder loan.

On 30 April 2017, agreements for promissory notes of £205.2m due to Fitness First Luxembourg SCA, which did not initially have a fixed maturity date, were amended to mature in February 2020.

33. ULTIMATE CONTROLLING PARTY

The ultimate parent company of the Group is Fitness First Luxembourg SCA (which is ultimately owned and controlled by funds advised by Oaktree Capital Management which own shares representing 60% of the issued share capital of that company), a company incorporated in Luxembourg.

COMPANY FINANCIAL STATEMENTS

Moray Finance Limited

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 October 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Investments	4	-	181,825
Trade and other receivables	5	284,077	348,079
		<u>284,077</u>	<u>529,904</u>
Current assets			
Trade and other receivables	5	72	280,295
Cash and cash equivalents		5	5
		<u>77</u>	<u>280,300</u>
Total Assets		<u>284,154</u>	<u>810,204</u>
Current liabilities			
Bank loans	6	48,334	-
Trade and other payables	6	188	207,609
		<u>48,522</u>	<u>207,609</u>
Non-current liabilities			
Borrowings and other financial liabilities	7	475,774	404,425
		<u>475,774</u>	<u>404,425</u>
Total liabilities		<u>524,296</u>	<u>612,034</u>
Net (liabilities) / assets		<u>(240,142)</u>	<u>198,170</u>
Equity			
Share Capital	9	3,854	3,854
Share premium		5,934	5,934
Accumulated funds		(249,930)	188,382
Total equity		<u>(240,142)</u>	<u>198,170</u>

The financial statements of Moray Finance Limited (registered number 05452198), for the year ended 31 October 2016, were approved and authorised for issue by the Board of Directors on 5 May 2017.

O Peleg
Director



COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2016

	Share capital £'000	Share Premium £'000	Accumulated funds £'000	Total £'000
At 1 November 2014	3,854	5,934	291,368	301,156
Loss for the year	-	-	(102,986)	(102,986)
At 31 October 2015	<u>3,854</u>	<u>5,934</u>	<u>188,382</u>	<u>198,170</u>
Loss for the year	-	-	(438,312)	(438,312)
At 31 October 2016	<u>3,854</u>	<u>5,934</u>	<u>(249,930)</u>	<u>(240,142)</u>

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 October 2016

	Note	2016 £'000	2015 £'000
Cash generated from operating activities			
Cash generated from operations	10	56,762	(44,139)
Net cash outflow from operating activities		<u>56,762</u>	<u>(44,139)</u>
 Cash flows from financing activities			
Interest paid		(5,785)	(3,286)
Draw down on loan facilities		-	47,500
Arrangement fee		-	(75)
Repayment of loan facility		(50,977)	-
Net cash used in financing activities		<u>(56,762)</u>	<u>44,139</u>
 Net increase in cash and cash equivalents		-	-
 Opening cash and cash equivalents		5	5
 Closing cash and cash equivalents		<u>5</u>	<u>5</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 October 2016

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

Moray Finance Limited (the "Company") is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom ("UK").

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees) as adopted for use in the European Union ("EU") and the Companies Act 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments which are stated at fair value, and discontinued operations which are stated at fair value less costs to sell, as described in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Acts 2006.

The financial statements are presented in £'000s sterling.

Going concern

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 liabilities position and despite the current uncertain economic conditions. In December 2016, the cash proceeds from the sale of Australia were utilised to fully repay the Company's term loan facility ahead of its contractual maturity. For more information please see page 10 of the consolidated financial statements.

3. INFORMATION REGARDING DIRECTORS, EMPLOYEES AND AUDITORS REMUNERATION

The directors who provide qualifying services to the company and its subsidiaries are remunerated by a subsidiary undertaking, Fleets Point Limited (formerly Fitness First Limited). The total remuneration borne by Fleets Point Limited for the Directors of the Company was £474,000 (2015: £612,000). The amount of remuneration allocated for their services as Directors of the Company is £nil (2015: £nil). The company had no employees in the current and previous year.

An audit fee of £252,442 (2015: £236,704) has been borne by another Group company in respect of the Group audit.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. INVESTMENTS

	Investment in subsidiary undertaking £'000
At 1 November 2015	181,825
Impairment charge in the year	(181,825)
At 31 October 2016	-

An impairment review of investments held in Fleets Lane Holdings Limited (formerly Fitness First Holdings Limited), the company's direct subsidiary, has been performed encompassing both the investment value and the intercompany receivables balances. The carrying value has been calculated by taking the investment value of the subsidiary company plus net intercompany receivables, less any previous impairments. This total investment and intercompany receivables balances provide a carrying value for the subsidiary entity.

If the carrying value is greater than recoverable amount an impairment will be recognised. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the subsidiary. An assessment has then been made of the expected funds flow from any future exit event to determine whether the funds are expected to be passed to the Company or to effectively by pass the Company in settlement of loans outstanding to FF Luxembourg SCA. The expected recoverable amount has been adjusted for any funds not expected to flow to the Company, and this adjusted value has been compared to the carry value of the investments and intercompany balances.

The value in use calculations are subject to a number of key assumptions, being the discount rates, growth rates and expected changes to selling prices and direct costs.. The Group's cash flow projections are based on industry forecasts and make assumptions regarding the Group's future performance, particularly regarding the Group's ability to attract new members and to retain existing members, and that there is no significant change to the economic, political, legal or social environment in which the Group operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Assumptions have also been made as to the expected breakdown and use of the proceeds generated from future business exits as part of the monetisation process.

The value in use is calculated using the most recent financial budgets approved by management for the next three years and extrapolates on a perpetuity basis using an estimated long term growth rate of 1.5% (2015: 1.5%). Discount rates are based on the Group's weighted average cost of capital adjusted to reflect management's assessment of specific risks related to the cash generating unit. The discount rates used as part of the impairment review in 2016 were 8.3% for Germany (2015: 9.8%) and 9.5% for the UK (2015: 10.3%). The movement in the discount rate relates to movements in ratios and betas of companies within the same industry which have been used as benchmarks.

The result of the impairment review is an impairment of investments in subsidiaries of £181.8m (2015: £84.4m), this is to align the carrying value of the investments with the recoverable amount. In addition, an impairment of intercompany receivables of £206.0m was recognised in the year (2015: £nil). As the regional monetisation strategy has progressed, the most likely flow of funds to Fitness First Luxembourg SCA has become clearer. These impairments largely result from the fact that certain future repayments of shareholder loans are expected to be made by subsidiaries of the Company directly to Fitness First Luxembourg SCA meaning that some funds are expected to bypass and therefore not be recovered by the Company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

4. INVESTMENTS (CONTINUED)

Name of company	Country of incorporation or registration	% Interest held and voting rights
Fleets Lane Holdings Limited	UK	100% directly

Fleets Lane Holdings Limited is a holding company.

5. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Current:		
Prepayments	72	121
Intercompany receivables	-	280,174
	<u>72</u>	<u>280,295</u>
Non-current:		
Intercompany receivables	284,077	348,079
Total	<u>284,077</u>	<u>628,374</u>

Further detail on the ageing of receivables and credit risk is provided in note 11. Intercompany receivables are shown net of an impairment of £206.0m recorded in the year (2015: £nil). Intercompany receivables have a maturity of 1 November 2017.

6. TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Current:		
Bank loans	48,334	-
Intercompany payables	19	206,254
Accruals	169	1,355
Total	<u>48,522</u>	<u>207,609</u>

The bank loan of £48.3m represents the 3 year syndicated financing agreement facility of £115.0m, this consists of two elements; a £100.0m cash facility and a £15.0m revolving credit facility (RCF), available for capital investment or other corporate purposes. During the year the Group repaid £51.0m of the full £100.0m of the cash facility previously drawn down and had utilised £15.0m of the RCF, for bank guarantees and letters of credit. The loan is shown net of unamortised arrangement fees of £0.7m. The facility has a maturity date of 22 April 2017. Interest at a blended rate of 4.8479% has been accrued during the year. Subsequent to year end the cash facility was fully repaid from cash proceeds from the sale of the Australian business. Refer to subsequent events note in consolidated accounts for further details.

The bank loans above attract financial covenants which are disclosed in more detail in the consolidated financial statements in note 27.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

7. BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2016 £'000	2015 £'000
Non-current		
Loans owed to Fitness First Luxembourg SCA	372,844	306,580
Bank loans	-	97,845
Intercompany payables	102,930	-
Total	<u>475,774</u>	<u>404,425</u>

As at 31 October 2016 these loans owed to Fitness First Luxembourg SCA have a maturity date of 18 February 2020. Interest is accruing at a fixed rate of 5.6183%.

The bank loans above attract financial covenants which are disclosed in more detail in the consolidated financial statements in note 27.

Intercompany payables have a maturity of 1 November 2017. Subsequent to year end the maturity date on these loans was extended to 1 November 2018.

8. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle them on a net basis. There are no recognised deferred tax balances (2015: £nil).

	2016 £'000	2015 £'000
Unrecognised deferred tax		
Other short term temporary differences	3	-
Unused tax losses	23,428	28,308
Deferred tax assets	<u>23,431</u>	<u>28,308</u>

The Company has not recognised the above deferred tax assets as it is not probable that the assets will be recovered. The asset will be recovered if there are suitable taxable profits against which the reversal of the asset can be relieved in future periods.

9. SHARE CAPITAL

	2016 No.	2015 No.	2016 £'000	2015 £'000
Authorised, allotted, called up and fully paid				
Ordinary shares of £1 each	<u>3,854,061</u>	<u>3,854,061</u>	<u>3,854</u>	<u>3,854</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

10. NOTES TO CASHFLOW STATEMENT

	2016 £'000	2015 £'000
Loss for the year	(438,312)	(102,986)
<i>Non-cash items:</i>		
Impairment of investments	181,825	84,395
Write off of intercompany balances	-	(37,596)
Finance costs	79,491	22,681
Finance income	(29,895)	(43,275)
Operating loss before changes in working capital and provisions	(206,891)	(76,781)
<i>Change in operating assets and liabilities:</i>		
Decrease / (increase) in receivables	344,162	(101,565)
Increase / (decrease) in payables	(80,509)	134,207
Cash generated from operations	56,762	(44,139)
Cash and cash equivalents	5	5

11. FINANCIAL INSTRUMENTS

Treasury policy and financial risk management

The Company's financial instruments comprise intercompany and external borrowings and various other items, such as trade receivables and payables.

The Company uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks faced by the Company are liquidity and funding, foreign exchange, interest and credit risk. It is the Company's policy not to hold financial instruments for trading purposes. The Company's policies in respect of the management of these risks are as follows:

Liquidity and funding risk

Liquidity and funding risk is the risk that the Company could be unable to settle or meet its obligations as they fall due. The Company finances its operations through a combination of cash generated from operations and borrowings from its parent company. The Company monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. FINANCIAL INSTRUMENTS (CONTINUED)**Liquidity and funding risk (continued)**

At year end the Group has £49.0m owing on the cash facility and had utilised £15.0m of the RCF for bank guarantees and letters of credit. The loan is shown net of unamortised arrangement fees of £0.7m.

The maturity profile of financial liabilities is as follows:

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000
2015					
Bank loans	-	-	-	100,000	100,000
Loans owed to:					
FF Luxembourg SCA	-	-	-	306,580	306,580
Intercompany payables	206,254	-	-	-	206,254
Total	<u>206,254</u>	<u>-</u>	<u>-</u>	<u>406,580</u>	<u>612,834</u>
2016					
Bank loans	-	-	48,334	-	48,334
Accruals	-	169	-	-	169
Loans owed to:					
FF Luxembourg SCA	-	-	-	372,844	372,844
Intercompany payables	-	-	19	102,930	102,949
Total	<u>-</u>	<u>169</u>	<u>48,353</u>	<u>475,774</u>	<u>524,296</u>

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates arises primarily where the Company has commitments in foreign currency which are not matched with cash flows within the Company. The Company policy is to hedge significant transactional currency exposures with the use of financial instruments as appropriate. The Company is primarily exposed to foreign exchange risk in relation to movements in the Euro and US dollar against Sterling.

At 31 October 2016 the Company held significant foreign currency denominated monetary assets and liabilities. Of inter-group loans owed to Fitness First Luxembourg SCA held at 31 October 2016, £185.5m (2015: £139.6m) was held in Euros, £136.3m (2015: £128.9m) in Pounds Sterling, and £51.1m (2015: £38.1m) in US dollars. At 31 October 2016 there are no intercompany receivables and payables held in foreign currencies (2015: £nil).

The following table demonstrates the sensitivity to reasonably possible changes in the Sterling against Euro and US dollar exchange rates with all other variables held constant. This is primarily the effect on the Company's profit before tax due to re-translation of foreign currency monetary assets and liabilities.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. FINANCIAL INSTRUMENTS (CONTINUED)**Foreign exchange risk (continued)**

Foreign exchange rate ("FX") risk Sterling vs.	Increase in FX rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000	Decrease in FX rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000
Euro	5%	7,029	7,029	(5%)	(7,769)	(7,769)
US dollars	5%	1,919	1,919	(5%)	(2,121)	(2,121)
At 31 October 2015		<u>8,948</u>	<u>8,948</u>		<u>(9,890)</u>	<u>(9,890)</u>
Euro	5%	9,024	9,024	(5%)	(9,974)	(9,974)
US dollars	5%	2,483	2,483	(5%)	(2,744)	(2,744)
At 31 October 2016		<u>11,507</u>	<u>11,507</u>		<u>(12,718)</u>	<u>(12,718)</u>

The Directors consider that a 5% change (2015: 5%) in the value of Sterling against US dollars, and a 5% change (2015: 5%) in the value of Sterling against the Euro is reflective of historical movements in foreign exchange rate movements and an appropriate sensitivity in the above table.

Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. There is exposure to interest rate risk on bank borrowings in Sterling.

The Company has not entered into replacement derivative arrangements because the directors believe there is a low risk of a substantial upward variable interest rate movement.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant. This shows the effect of hypothetical market interest rates on the Company's loss before tax through the impact on floating rate borrowings and re-evaluation of the fair value of derivatives not in a hedge accounting relationship and changes in equity due to re-evaluation of the fair value of interest rate derivatives accounted for as cash flow hedges.

The impact of the change in interest rates has been considered in isolation and excludes any correlated change in foreign currency exchange rates.

The shareholder loan is at a fixed interest rate and therefore has no exposure to fluctuations in interest risk.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

Interest rate risk	Increase in interest rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000	Decrease in interest rate	Effect on profit/(loss) before tax £'000	Effect on equity gain/(loss) £'000
GBP	0.5%	157	157	(0.5%)	(157)	(157)
At 31 October 2015		<u>157</u>	<u>157</u>		<u>(157)</u>	<u>(157)</u>
GBP	0.5%	(471)	(471)	(0.5%)	471	471
At 31 October 2016		<u>(471)</u>	<u>(471)</u>		<u>471</u>	<u>471</u>

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. This concerns both trade and other receivables and financial assets.

The Company is exposed to credit risk attributed to trade and other receivables. The Directors do not consider the risk to be significant to the Company as the balances are entirely with related parties.

Credit risk also arises from other financial assets of the Company, through the default of a counterparty. The maximum exposure is equal to the carrying value of these instruments.

The ages of trade and other receivables at 31 October 2015 and 31 October 2016 were entirely neither past due or impaired.

Categories of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments.

	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
Financial assets				
Cash and cash equivalents	5	-	5	5
Intercompany receivables	628,253	-	628,253	628,253
Financial liabilities				
Bank loans	-	(97,845)	(97,845)	(97,845)
Trade and other payables	-	(1,355)	(1,355)	(1,355)
Loans owed to:				
FF Luxembourg SCA	-	(306,580)	(306,580)	(306,580)
Intercompany payables	-	(206,254)	(206,254)	(206,254)
At 31 October 2015	<u>628,258</u>	<u>(612,034)</u>	<u>16,224</u>	<u>16,224</u>

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

11. FINANCIAL INSTRUMENTS (CONTINUED)

	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
Financial assets				
Cash and cash equivalents	5	-	5	5
Intercompany receivables	284,077	-	284,077	284,077
Financial liabilities				
Bank loans	-	(48,334)	(48,334)	(48,334)
Trade and other payables	-	(169)	(169)	(169)
Loans owed to:				
FF Luxembourg SCA	-	(372,844)	(372,844)	(372,844)
Intercompany payables	-	(102,948)	(102,948)	(102,948)
At 31 October 2016	<u>284,082</u>	<u>(524,296)</u>	<u>(240,213)</u>	<u>(240,213)</u>

The fair value of trade and other receivables, intercompany receivables, trade and other payables and intercompany payables is equal to book value. We do not believe there is a difference between fair value and book value for the bank loans. The book value of the loans owed to FF Luxembourg SCA is considered to approximate fair value as the terms of these loans are considered to be at arm's length. The book value of the bank loan and the loans owed to FF Lux in 2016 are shown net of unamortised arrangement fees. The fair value is deemed to be the value of the amount drawn down.

The company does not have any financial instruments held at fair value through profit and loss. All financial instruments held by the Company are held at carrying value.

12. RELATED PARTY TRANSACTIONS

The following transactions with related parties took place:

	2016 £'000	2015 £'000
Moray Holdings Limited - preference dividends received	-	3,525
Moray Holdings Limited – preference share dividends and interest waiver of balances	-	37,596
Moray Limited - interest income	18,028	13,907
Fleets Lane Limited - interest income	6,002	11,945
Fleets Point Limited – interest payable	1,152	2,539
Fitness First Luxembourg SCA – interest payable	18,750	16,735
Shareholders of Fitness First Luxembourg SCA	-	-
Oaktree Capital Management	868	1,542

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2016

12. RELATED PARTY TRANSACTIONS (CONTINUED)

The following balances were held with related parties:

	2016 £'000	2015 £'000
Inter-group loans with Fitness First Luxembourg SCA	(372,844)	(306,580)
Intercompany receivables	284,077	628,253
Intercompany payables	(102,948)	(206,254)
Oaktree Capital Management	(138)	(167)

13. SUBSEQUENT EVENTS

In December 2016, the cash proceeds from the sale of Australia were utilised to fully repay the Company's term loan facility ahead of its contractual maturity.

In April 2017, intercompany loans due to Fleets Point Limited and Fleets Lane Holdings Limited with maturity dates of 1 November 2017, were amended to mature in November 2018.

14. ULTIMATE CONTROLLING PARTY

The parent company and controlling party, which prepares consolidated accounts of which the Company is a member, is Fitness First Luxembourg SCA (which is ultimately owned and controlled by funds advised by Oaktree Capital Management which own shares representing 60% of the issued share capital of that company), a company incorporated in Luxembourg.